

SWFT 2014: Individual Income Taxes

Solutions to Appendix E, “Comprehensive Tax Return Problems”

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SWFT 2014: Individual Income Taxes

Solutions to Appendix E, Comprehensive Tax Return Problems

Problem 1 – David R. and Sheri N. Johnson – Individuals (Form 1040)

Form 1040 Department of the Treasury—Internal Revenue Service (99)		2012	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																				
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20																								
Your first name and initial David R		Last name Johnson		Your social security number 111-11-1111																				
If a joint return, spouse's first name and initial Sheri N		Last name Johnson		Spouse's social security number 123-45-6785																				
Home address (number and street). If you have a P.O. box, see instructions. 641 Cody Way			Apt. no.	▲ 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). Casper WY 82609			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 type="checkbox"/> You <input type="checkbox"/> Spouse																					
Foreign country name		Foreign province/state/county	Foreign postal code																					
Filing Status 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 instr.) 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																								
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"> <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>Kirby</td> <td>Johnson</td> <td>123-45-6788</td> <td>Daughter</td> <td></td> </tr> <tr> <td>Toby</td> <td>Johnson</td> <td>123-45-6789</td> <td>Son</td> <td></td> </tr> <tr> <td>Vivan</td> <td>Olson</td> <td>123-45-6786</td> <td>Parent</td> <td></td> </tr> </tbody> </table> If more than four dependents, see instructions and check here <input type="checkbox"/> d Total number of exemptions claimed 5					(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)	Kirby	Johnson	123-45-6788	Daughter		Toby	Johnson	123-45-6789	Son		Vivan	Olson	123-45-6786	Parent	
(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)																				
Kirby	Johnson	123-45-6788	Daughter																					
Toby	Johnson	123-45-6789	Son																					
Vivan	Olson	123-45-6786	Parent																					
Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 38,000 8a Taxable interest. Attach Schedule B if required 8a 6,300 b Tax-exempt interest. Do not include on line 8a 8b 1,900 9a Ordinary dividends. Attach Schedule B if required 9a 700 b Qualified dividends 9b 700 10 Taxable refunds, credits, or offsets of state and local income taxes 10 0 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 70,724 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 13 9,100 14 Other gains or (losses). Attach Form 4797 14 0 15a IRA distributions 15a b Taxable amount 15b 0 16a Pensions and annuities 16a b Taxable amount 16b 0 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 2,895 18 Farm income or (loss). Attach Schedule F 18 0 19 Unemployment compensation 19 20a Social security benefits 20a b Taxable amount 20b 420 21 Other income. List type and amount JURY PAY 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22 128,139																								
Adjusted Gross Income 23 Educator expenses 23 0 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24 0 25 Health savings account deduction. Attach Form 8889 25 0 26 Moving expenses. Attach Form 3903 26 0 27 Deductible part of self-employment tax. Attach Schedule SE 27 4,896 28 Self-employed SEP, SIMPLE, and qualified plans 28 9,000 29 Self-employed health insurance deduction 29 3,800 30 Penalty on early withdrawal of savings 30 0 31a Alimony paid b Recipient's SSN 31a 5,000 32 IRA deduction 32 33 Student loan interest deduction 33 34 Tuition and fees. Attach Form 8917. 34 35 Domestic production activities deduction. Attach Form 8903 35 0 36 Add lines 23 through 35 36 22,796 37 Subtract line 36 from line 22. This is your adjusted gross income 37 105,343																								

KIA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Form 1040 (2012)

Tax and Credits

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, \$5,950

Married filing jointly or Qualifying widow(er), \$11,900

Head of household, \$8,700

38	Amount from line 37 (adjusted gross income)	38	105,343
39a	Check <input type="checkbox"/> You were born before January 2, 1948, if: <input type="checkbox"/> Spouse was born before January 2, 1948, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	13,627
41	Subtract line 40 from line 38	41	91,716
42	Exemptions. Multiply \$3,800 by the number on line 6d	42	19,000
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	72,716
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"/> 962 election	44	9,321
45	Alternative minimum tax (see instructions). Attach Form 6251	45	0
46	Add lines 44 and 45	46	9,321
47	Foreign tax credit. Attach Form 1116 if required	47	0
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Education credits from Form 8863, line 19	49	
50	Retirement savings contributions credit. Attach Form 8880	50	0
51	Child tax credit. Attach Schedule 8812, if required	51	
52	Residential energy credits. Attach Form 5695	52	
53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	0
54	Add lines 47 through 53. These are your total credits	54	0
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	9,321

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	8,687
57	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57	0
58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	0
59a	Household employment taxes from Schedule H	59a	0
b	First-time homebuyer credit repayment. Attach Form 5405 if required	59b	0
60	Other taxes Enter code(s) from instructions	60	
61	Add lines 55 through 60. This is your total tax	61	18,008

Payments

If you have a qualifying child, attach Schedule EIC.

62	Federal income tax withheld from Forms W-2 and 1099	62	5,100
63	2012 estimated tax payments and amount applied from 2011 return	63	16,150
64a	Earned income credit (EIC)	64a	
b	Nontaxable combat pay election <input type="checkbox"/> 64b		
65	Additional child tax credit. Attach Schedule 8812	65	
66	American opportunity credit from Form 8863, line 8	66	
67	Reserved	67	
68	Amount paid with request for extension to file	68	
69	Excess social security and tier 1 RRTA tax withheld	69	0
70	Credit for federal tax on fuels. Attach Form 4136	70	
71	Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71	0
72	Add lines 62, 63, 64a, and 65 through 71. These are your total payments	72	21,250

Refund

Direct deposit? See instructions.

73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73	3,242
74a	Amount of line 73 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/> 74a		0
b	Routing number XXXXXXXXXXXX	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number XXXXXXXXXXXXXXXXXXXX		
75	Amount of line 73 you want applied to your 2013 estimated tax	75	3,242

Amount You Owe

76	Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions	76	0
77	Estimated tax penalty (see instructions)	77	0

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☒ Yes. Complete below ☐ No

Designee's name	Phone no.	Personal identification number (PIN)
-----------------	-----------	--------------------------------------

Sign Here

Joint return? See instructions. Keep a copy for your records.

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 Mining Engineer	Daytime phone number 312-555-0010
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation Paralegal	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
Firm's name	Firm's EIN	Phone no.	
Firm's address			

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040
David R. Johnson

Itemized Deductions

► Information about Schedule A and its separate instructions is at www.irs.gov/form1040.

► Attach to Form 1040.

OMB No. 1545-0074

2012

Attachment
Sequence No. 07

Your social security number
111-11-1111

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.		
1	Medical and dental expenses (see instructions)	1	9,197
2	Enter amount from Form 1040, line 38	2	105,343
3	Multiply line 2 by 7.5% (.075)	3	7,901
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	1,296
Taxes You Paid	5 State and local (check only one box):		
	a. <input type="checkbox"/> Income taxes or	5	2,531
	b. <input checked="" type="checkbox"/> General sales taxes		
6	Real estate taxes (see instructions)	6	2,480
7	Personal property taxes	7	0
8	Other taxes. List type and amount ►	8	0
9	Add lines 5 through 8	9	5,011
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10	3,520
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11	0
Note. Your mortgage interest deduction may be limited (see instructions).	12 Points not reported to you on Form 1098. See instructions for special rules	12	0
	13 Mortgage insurance premiums (see instructions)	13	0
	14 Investment interest. Attach Form 4952 if required. (See instructions)	14	
	15 Add lines 10 through 14	15	3,520
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	3,800
If you made a gift and got a benefit for it, see instructions.	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	0
	18 Carryover from prior year	18	0
	19 Add lines 16 through 18	19	3,800
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	0
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ► Form 2106	21	1,340
	22 Tax preparation fees	22	
	23 Other expenses—investment, safe deposit box, etc. List type and amount ►	23	0
	24 Add lines 21 through 23	24	1,340
	25 Enter amount from Form 1040, line 38	25	105,343
	26 Multiply line 25 by 2% (.02)	26	2,107
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	0
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ►	28	0
Total Itemized Deductions	29 Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40	29	13,627
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>		

KIA For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 2012

SCHEDULE B
(Form 1040A or 1040)

Interest and Ordinary Dividends

OMB No. 1545-0074

▶ Attach to Form 1040A or 1040.

2012

Department of the Treasury
Internal Revenue Service (99)

▶ Information about Schedule B (1040A or 1040) and its instructions is a www.irs.gov/form1040.

Attachment
Sequence No. **08**

Name(s) shown on return
David R Johnson

Your social security number
111-11-1111

Part I
Interest

- 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 and list this interest first. Also, show that buyer's social security number and address. ▶
- Wells Fargo Bank
- Bank of America
- Interest on Installment Sale
- City of Cheyenne

(See instructions for Schedule B, 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.

Amount

1,100

400

4,800

0

1

- 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 ▶

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

6,300

2

3

6,300

4

Amount

Part II

Ordinary Dividends

- 5** List name of payer ▶
- Meadowlark Corp

(See the instructions for Schedule B, 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.

700

5

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

700

6

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.)

- 7a** At any time during 2012, 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 Form TD F 90-22.1 to report that financial interest or signature authority? See Form TD F 90-22.1 and its instructions for filing requirements and exceptions to those requirements
- b** If you are required to file Form TD F 90-22.1, enter the name of the foreign country where the financial account is located ▶
- 8** During 2012, 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.

Yes No

X

X

X

X

X

X

X

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

Schedule B (Form 1040A or 1040) 2012

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2012

Attachment
Sequence No. 09

Name of proprietor David R Johnson		Social security number (SSN) 111-11-1111
A Principal business or profession, including product or service (see instructions) Engineer, Services to Mining Companies		B Enter code from instructions ► 541990
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN), (see instr.)
E Business address (including suite or room no.) ► 641 Cody Way City, town or post office, state, and ZIP code Casper WY 82609		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►		
G Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on losses		<input checked="" type="checkbox"/> Yes. <input type="checkbox"/> No.
H If you started or acquired this business during 2012, check here		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions)		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file required Forms 1099?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Part I Income			
1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on form W-2 and the "Statutory employee" box on that form was checked.	1		117,620
2 Returns and allowances (see instructions)	2		
3 Subtract line 2 from line 1	3		117,620
4 Cost of goods sold (from line 42)	4		0
5 Gross profit. Subtract line 4 from line 3	5		117,620
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6		
7 Gross income. Add lines 5 and 6	7		117,620
Part II Expenses.			
Enter expenses for business use of your home only on line 30.			
8 Advertising	8	2,400	18 Office expense (see instructions)
9 Car and truck expenses (see instructions)	9	5,390	19 Pension and profit-sharing plans
10 Commissions and fees	10		20 Rent or lease (see instructions):
11 Contract labor (see instructions)	11		a Vehicles, machinery, & equipment
12 Depletion	12		b Other business property
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	9,210	21 Repairs and maintenance
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)
15 Insurance (other than health)	15		23 Taxes and licenses
16 Interest:			24 Travel, meals, and entertainment:
a Mortgage (paid to banks, etc.)	16a		a Travel
b Other	16b		b Deductible meals and entertainment (see instructions)
17 Legal and professional services	17		25 Utilities
			26 Wages (less employment credits)
			27a Other expenses (from line 48)
			b Reserved for future use
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		40,350
29 Tentative profit or (loss). Subtract line 28 from line 7	29		77,270
30 Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30		6,546
31 Net profit or (loss). Subtract line 30 from line 29.	31		70,724
• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instr.) Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.			
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.			
32a <input checked="" type="checkbox"/> All investment is at risk.			
32b <input type="checkbox"/> Some investment is not at risk.			

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

Schedule C (Form 1040) 2012

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory:	a <input type="checkbox"/> Cost	b <input type="checkbox"/> Lower of cost or market	c <input type="checkbox"/> Other (attach explanation)
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory?			
	If "Yes," attach explanation <input type="checkbox"/> Yes <input type="checkbox"/> No			
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40	0	
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	0	

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____

44 Of the total number of miles you drove your vehicle during 2012, enter the number of miles you used your vehicle for:

a Business _____ b Commuting (see instructions) _____ c Other _____

45 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

Telephone/Internet	860
Trade Journals	240
Professional Dues	180
48 Total other expenses. Enter here and on line 27a	48 1,280