

## ***TABLE OF CONTENTS***

### **INDIVIDUAL PRACTICE SET #1 – William and Annette Kelly**

Filled-in tax return solution.....	1-2
Solution notes for instructor.....	1-31

### **INDIVIDUAL PRACTICE SET #2 – Leopold and Gretchen Klein**

Filled-in tax return solution.....	2-1
Solution notes for instructor.....	2-30

**INDIVIDUAL PRACTICE SET #1**  
**WILLIAM AND ANNETTE KELLY**  
**SOLUTION NOTES FOR INSTRUCTOR**  
**INDIVIDUAL FEDERAL INCOME TAX RETURN**  
**2013-2014 ANNUAL EDITION**

## 1-2 ♦ Solution to Individual Practice Set #1

<b>Form 1040</b> Department of the Treasury—Internal Revenue Service (99) <b>2012</b>		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 William D		Last name Kelly																					
If a joint return, spouse's first name and initial Annette F		Last name Kelly																					
Home address (number and street). If you have a P.O. box, see instructions. 450 Railroad Avenue		Apt. no.																					
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Sandpoint ID 83864		<b>Presidential Election Campaign</b> 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																					
<b>Filing Status</b> 1 <input type="checkbox"/> Single 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. 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. 5 <input type="checkbox"/> Qualifying widow(er) with dependent child Check only one box.																							
<b>Exemptions</b> 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>Sean</td> <td>Kelly</td> <td>123-45-6786</td> <td>Son</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></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 3				(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)	Sean	Kelly	123-45-6786	Son											
(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)																			
Sean	Kelly	123-45-6786	Son																				
<b>Income</b> 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 88,150 8a Taxable interest. Attach Schedule B if required 8a 1,374 b Tax-exempt interest. Do not include on line 8a 8b 16,255 9a Ordinary dividends. Attach Schedule B if required 9a 7,700 b Qualified dividends 9b 6,510 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 12 116,920 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 13 41,100 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a 31,700 b Taxable amount 15b 5,000 16a Pensions and annuities 16a 31,700 b Taxable amount 16b 23,380 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 1,200 18 Farm income or (loss). Attach Schedule F 18 0 19 Unemployment compensation 19 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount SEE ATTACHED 21 14,199 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22 299,023																							
<b>Adjusted Gross Income</b> 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 8,259 28 Self-employed SEP, SIMPLE, and qualified plans 28 0 29 Self-employed health insurance deduction 29 4,400 30 Penalty on early withdrawal of savings 30 0 31a Alimony paid b Recipient's SSN 31a 0 32 IRA deduction 32 0 33 Student loan interest deduction 33 34 Tuition and fees. Attach Form 8917. 34 35 Domestic production activities deduction. Attach Form 8903 35 10,523 36 Add lines 23 through 35 36 23,182 37 Subtract line 36 from line 22. This is your adjusted gross income 37 275,841																							

KIA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form 1040 (2012)

Form 1040 (2012)		William D Kelly		123-45-6781		Page 2	
<b>Tax and Credits</b>		38	Amount from line 37 (adjusted gross income)	38	275,841		
39a Check <input type="checkbox"/> You were born before January 2, 1948, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1948, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a <input type="checkbox"/>							
b If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b <input type="checkbox"/>							
<b>Standard Deduction for—</b> • 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		40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	34,487		
		41	Subtract line 40 from line 38	41	241,354		
		42	Exemptions. Multiply \$3,800 by the number on line 6d	42	11,400		
		43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	229,954		
		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	47,641		
		45	Alternative minimum tax (see instructions). Attach Form 6251	45	1,045		
		46	Add lines 44 and 45	46	48,686		
		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	1,680		
		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	1,680		
		55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	47,006		
<b>Other Taxes</b>		56	Self-employment tax. Attach Schedule SE	56	14,361		
		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		
		59b	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	61,367		
<b>Payments</b>		62	Federal income tax withheld from Forms W-2 and 1099	62	18,512		
		63	2012 estimated tax payments and amount applied from 2011 return	63	44,000		
		64a	Earned income credit (EIC)	64a			
		64b	Nontaxable combat pay election	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 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	62,512		
<b>Refund</b>		73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73	1,145		
		74a	Amount of line 73 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	74a	1,145		
		b	Routing number XXXXXXXXXX c Type: <input checked="" 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	0		
<b>Amount You Owe</b>		76	Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions	76			
		77	Estimated tax penalty (see instructions)	77	0		
		Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below <input checked="" type="checkbox"/> No					
<b>Third Party Designee</b>		Designee's name		Phone no.		Personal identification number (PIN)	
<b>Sign Here</b>		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 Brewer	
		Spouse's signature. If a joint return, both must sign.		Date		Spouse's occupation Accountant	
		Print/Type preparer's name		Preparer's signature		Daytime phone number 208-555-2345	
		Firm's name		Firm's EIN		If the IRS sent you an Identity Protection PIN, enter it here (see inst.)	
		Firm's address		Phone no.		Check <input type="checkbox"/> if self-employed PTIN	
<b>Paid Preparer Use Only</b>							

**SCHEDULE A  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Itemized Deductions**► Information about Schedule A and its separate instructions is at [www.irs.gov/form1040](http://www.irs.gov/form1040).

► Attach to Form 1040.

OMB No. 1545-0074

**2012**  
Attachment  
Sequence No. **07**

Name(s) shown on Form 1040

William D Kelly

Your social security number  
123-45-6781

<b>Medical and Dental Expenses</b>	<b>Caution.</b> Do not include expenses reimbursed or paid by others.			
	1	Medical and dental expenses (see instructions)	1	3,200
	2	Enter amount from Form 1040, line 38	2	275,841
	3	Multiply line 2 by 7.5% (.075)	3	20,688
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	0
<b>Taxes You Paid</b>	5 State and local (check only one box):			
	a. <input checked="" type="checkbox"/> Income taxes or		5	5,801
	b. <input type="checkbox"/> General sales taxes		6	6,690
	6 Real estate taxes (see instructions)		7	200
	7 Personal property taxes		8	0
	8 Other taxes. List type and amount ►			
	9	Add lines 5 through 8	9	12,691
<b>Interest You Paid</b>	10	Home mortgage interest and points reported to you on Form 1098	10	0
	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
	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	9,800
<b>Gifts to Charity</b> If you made a gift and got a benefit for it, see instructions.	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	6,600
	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	
	18	Carryover from prior year	18	
	19	Add lines 16 through 18	19	6,600
<b>Casualty and Theft Losses</b>	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	5,116
<b>Job Expenses and Certain Miscellaneous Deductions</b>	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	21	0
	22	Tax preparation fees	22	
	23	Other expenses—investment, safe deposit box, etc. List type and amount ►	23	955
	24	Add lines 21 through 23	24	955
	25	Enter amount from Form 1040, line 38	25	275,841
	26	Multiply line 25 by 2% (.02)	26	5,517
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	0
<b>Other Miscellaneous Deductions</b>	28	Other—from list in instructions. List type and amount ► Gambling	28	280
<b>Total Itemized Deductions</b>	29	Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40	29	34,487
	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