

## APPENDIX E

### PRACTICE SET ASSIGNMENTS—COMPREHENSIVE TAX RETURN PROBLEMS

#### SOLUTIONS TO PROBLEM MATERIALS

##### PROBLEM 1 SOLUTIONS

1. Steven reports his compensation on line 7 of Form 1040. This includes his salary, the bonus he received in 2016 (because he is a cash basis taxpayer), and travel allowance he received (this is taxable since he is not required to account to his employer for his actual expenses). This sum is reduced by his contribution to his § 401(k) plan (taxation is deferred until he takes distributions from the plan). His “contribution” of \$3,600 to the group health insurance plan represents health premiums paid, which are included on line 1 of Schedule A as a qualifying medical expense (see item 11 below for a discussion of other itemized deductions).
2. Steven reports his unreimbursed employee business expenses on Form 2106. His deductions are limited with respect to certain expenditures. Only half of the cost of the business meals and entertainment is deductible [ $\$2,100$  deduction =  $(\$3,400 + 800) \times 50\%$ ]. The deduction for business gifts is limited to \$25 per donee ( $\$275$  deduction =  $\$25 \times 11$ ). Even though the traffic fines occurred during business trips, none of the \$620 is deductible due to the public policy limitation (see Chapter 6). The remaining costs are included on Form 2106 without limitation.
3. Steven chose to use the actual operating cost method for reporting vehicle expenses last year when he bought the Focus. He should continue to use this method [even though a change in accounting method is possible (see text p. 9-37)] since it results in a larger deduction than the standard mileage cost method [ $\$7,776$  ( $\$.54$  rate per mile  $\times 18,000$  miles driven  $\times 80\%$  deductible business portion)]. The deduction of \$8,504 reported on Form 2106 line 1 is made up of \$4,080 depreciation and \$4,424 of operating expenses. Regular MACRS depreciation on the Focus would be \$6,144 [ $\$24,000$  cost  $\times 80\%$  business use  $\times 32\%$  depreciation rate [MACRS amount for second year (see Exhibit 8-3, 5-year column)]]. However, depreciation for passenger automobiles is limited, so depreciation for the Focus is \$4,080 [ $\$5,100$  maximum  $\times 80\%$  business use]. The depreciation deduction is reported both on Form 4562, Part V and Form 2106, Part II, Section D. The remaining automobile expenses other than parking and toll charges are reported on line 23 of Section C of Part II and are \$5,530 (business portion is \$4,424). The \$900 of interest on the car loan cannot be claimed since Steven is not self-employed (see Chapter 9). Parking and toll charges of \$300 are reported on line 2 of Form 2106 line 2. Total deductible expenses from line 10 of Form 2016 are reported on line 21 of Schedule A, where they are further reduced by the 2%-of-AGI limitation.
4. Debra reports her self-employed business income on Schedule C (Form 1040). Her consulting income of \$52,000 is reported on Part I of Schedule C. Since she uses the cash method for tax purposes, she includes the \$3,000 receipt for work done in 2015, but not the \$5,000 billed and not yet collected. The \$6,000 uncollected receivable from 2014 cannot be deducted as a bad debt as Debra has no basis in the item. As a cash basis taxpayer, she never recognized any income. Her deductible expenses total \$11,021 and are detailed as follows:

- Line 9 \$508 Car Expenses [940 miles  $\times$  \$0.54 standard mileage rate (detailed on Form 4562, Page 2, Part V, Section A)];
- Line 13 \$800 Depreciation (from Form 4562);
- Line 22 \$8,000 Supplies (\$4,800 drafting supplies + \$3,200 reproduction materials);
- Line 23 \$400 License fee;
- Line 27a \$1,290 Other Expenses [\$800 Work Clothes + \$250 Journal Subscriptions + \$240 Professional Dues (detailed on Part V, page 2)].

Finally, because Debra is self-employed, she computes her self-employment tax using Schedule SE (Form 1040) on her net profits from line 31 of Schedule C.

5. Debra computes the deduction for her home office on Form 8829. Computations in Part I show that 1/8 (i.e., 12.5%) of the home's living area is devoted to business use. Computations in Part II differentiate between direct costs (painting expense) and indirect costs (the other costs associated with the home), which need to be prorated. Depreciation on the home is computed in Part III on the prorated business use adjusted basis for the house multiplied by 2.564%, the MACRS depreciation rate for 39-year nonresidential real property for the recovery period of 2–39 years is 2.564% (see Exhibit 8-8 MACRS Straight-Line Depreciation for Real Property Assuming Mid-Month Convention). The total home office deduction is reported on line 30 of Schedule C (Form 1040).

Debra deducts the \$800 spent on the file cabinet by electing § 179 expensing. This election is made by completing Form 4562 Part I for this acquisition. The deduction is reported on line 13 of Schedule C (Form 1040).

6. Debra reports her § 1031 like-kind exchange of the Lincoln County property on Form 8824. Information on the like-kind expense is reported in Part I of the form. Part III is where the realized gain, recognized gain, and basis in the like-kind property received are reported. Debra's basis in the property is its fair market value when her uncle passed away per § 1014 (see Chapter 14). Debra must recognize gain of \$10,000, the lesser of the cash received or the realized gain of \$160,000. This recognized gain is reported on line 23 of Form 8824 as well as on line 11 of Part II of Schedule D (Form 1040).
7. The installment method generally applies to gains on dispositions of property if the seller receives at least one part of the purchase price in a year following the year of sale (see Chapter 18). To follow this general rule (and defer recognition of some of the realized gain to the periods in which she ultimately receives the installment payments), Debra should report the gain on the sale of the McCook land by completing Form 6252. The gross profit from the sale is computed in Part I. Debra's \$30,000 basis in the land was the fair market value of the property when her uncle died per § 1014 (see Chapter 14). Debra's gross profit percentage from the sale is computed in Part II to be .75 (\$90,000  $\div$  \$120,000), which translates into a gain of \$15,000 on the \$20,000 installment collected this year. This recognized gain is reported on line 24 of Form 6252 as well as on line 11 of Part II of Schedule D (Form 1040).
8. Although Mindy was one of Steven's managers, the loan to her was a nonbusiness debt since the money was not loaned in connection with business. A nonbusiness bad debt is treated as a short-term capital loss [see Code § 166(d)(1)(B) and Chapter 7]. To be deductible, however, nonbusiness bad debts must be *completely worthless*. Under the circumstances, this requirement appears to be

satisfied. The \$5,000 should be reported on Form 8949 Part I with Box C checked. This amount is carried over to Part I of Schedule D.

9. Steven has a \$16,000 loss from worthless securities. The worthlessness of these securities is deduced from the fact that the corporation's remaining assets were seized by its creditors. Since the investment is a capital asset that was held for more than one year, its classification is a long-term capital loss. The \$16,000 is reported on Form 8949 Part II with Box F checked. This amount is carried over to Part II of Schedule D.
10. Interest receipts from the General Motors corporate bonds and the certificate of deposit are reported on Part I of Schedule B (Form 1040) and on line 8a of Form 1040. Interest on the Sioux Falls bonds is not taxable, but it still must be reported on line 8b of Form 1040. The qualified dividends from MG&E are reported in Part II of Schedule B and on Lines 9a and 9b of Form 1040.

The rebate from HomeStuff is a purchase price adjustment. Since the items were purchased for personal use, their cost is not tax deductible. As such, the tax benefit rule does not come into play (see Chapter 5).

When Steven receives payment of the money he lent his sister, the return of the principal is not taxable. However, Steven must report the interest income on Part I of Schedule B.

The gift from Debra's parents is a nontaxable exclusion from gross income (§ 102). The fact that the parents' gift exceeded the combined annual exclusion of \$28,000 for gift splitting (see Chapter 1) could result in gift tax implications to them. The transfer of the funds to a § 529 qualified tuition plan (see Chapter 5) has no current income tax effect on Debra.

The Federal income tax refund is not taxable because it is a return of a previously nondeductible expenditure (see Exhibit 10-2).

11. Debra's contribution to her IRA is deducted on line 32 of Form 1040.

Gambling gains and losses cannot be netted for reporting purposes. Gambling winnings are reported on line 21 of Form 1040, with a notation on the source of the other income. Gambling losses are itemized deductions. Since gambling losses are limited to gains, only \$1,200 can be deducted on line 28 of Schedule A (Form 1040).

Life insurance premiums are not deductible (see Chapter 3).

Medical expenses reported on Schedule A include the premiums Steven pays to the group plan at work and the out-of-pocket expenses detailed here. No adjustment is necessary for the 2015 expenses paid in 2016 as the year of payment controls. The deductible portion of these expenses is the excess over 10% of AGI (lines 2 and 3 of Schedule A, Form 1040).

Debra already deducted 12.5% of the property taxes in computing her home office deduction (see item 5 above). The remainder is deducted on line 6 of Schedule A (Form 1040).

South Dakota does not have an income tax, so the Marshalls should claim a sales tax deduction. Many taxpayers do not save their purchase receipts to document the sales tax they paid during the year, so they compute their sales tax deduction using the Optional Sales Tax Tables in the Schedule A instructions. For the Marshalls, this computation yields a sales tax deduction of \$1,209. Since they can substantiate \$3,200 in sales tax paid during 2016, they should deduct \$3,200 on line 5 of Schedule A (Form 1040). Be sure the sales tax box on line 5b is checked.

Like the property taxes, Debra already deducted 12.5% of the home mortgage interest in computing her home office deduction (see item 5 above). The remainder is deducted on line 10 of Schedule A (Form 1040).

Regardless of any personal benefits derived, contributions to political campaigns are not deductible (see Chapter 6). As a result, the charitable contribution deduction on line 16 of Schedule A is limited to the contribution to Goodwill.

12. The Marshalls are entitled to two personal exemptions for themselves and two dependency exemptions for their children [line 6 (page 1) and line 42 (page 2) of Form 1040]. Although not under 19 years of age, Emma is considered a full-time student for the year because she was a full-time student from January through May while she finished high school. Because she satisfies the qualified child dependent tests, the gross income test associated with the qualified relative dependent rules does not apply (see Chapter 3).
13. A brief summary of the Marshalls' tax return for 2016 appears below.

Gross income—	
Salary	\$ 94,000
Schedule B	5,710
Schedule C	35,361
Schedule D	3,500
Other (Gambling)	1,200
Deductions <i>for</i> AGI—	
Deductible self-employment tax	(2,498)
IRA Deduction	<u>(5,500)</u>
AGI	\$131,773
Schedule A—Itemized deductions (deductions <i>from</i> AGI)	(28,444)
Personal and dependency exemptions	<u>(16,200)</u>
Taxable income	<u>\$ 87,129</u>

Computation of tax liability through use of the *Schedule D Tax Worksheet* yields a liability of \$12,664. To this is added the self-employment tax of \$4,996 (see Schedule SE) for a total amount due of \$17,660. Since the Marshalls paid a total of \$17,800, they will receive a refund of \$140.



Form	1040	Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return</b>	(99)	2016	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2016, or other tax year beginning		, 2016, ending		, 20		See separate instructions.
Your first name and initial		Last name		Your social security number		
Steven B		Marshall		123-45-6486		
If a joint return, spouse's first name and initial		Last name		Spouse's social security number		
Debra S		Marshall		123-45-6787		
Home address (number and street). If you have a P.O. box, see instructions.					Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
426 East Twin Oaks Road						
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).					Presidential Election Campaign	
Sioux Falls SD 57105					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 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						
<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: (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) If more than four dependents, see instructions and check here <input type="checkbox"/> d Total number of exemptions claimed						
Boxes checked on 6a and 6b 2 No. of children on 6c who: • lived with you 2 • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above 4						
<b>Income</b> 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 94,000 8a Taxable interest. Attach Schedule B if required 8a 2,610 b Tax-exempt interest. Do not include on line 8a 8b 1,400 9a Ordinary dividends. Attach Schedule B if required 9a 3,100 b Qualified dividends 9b 3,100 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 35,361 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 13 3,500 14 Other gains or (losses). Attach Form 4797 14 0 15a IRA distributions 15a Taxable amount 15b 0 16a Pensions and annuities 16a Taxable amount 16b 0 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 0 19 Unemployment compensation 19 20a Social security benefits 20a Taxable amount 20b 21 Other income. List type and amount GAMBLING 21 1,200 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22 139,771						
<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 2,498 28 Self-employed SEP, SIMPLE, and qualified plans 28 0 29 Self-employed health insurance deduction 29 30 Penalty on early withdrawal of savings 30 0 31a Alimony paid b Recipient's SSN 31a 32 IRA deduction 32 5,500 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 7,998 37 Subtract line 36 from line 22. This is your adjusted gross income 37 131,773						

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

Form 1040 (2016)

## 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, \$6,300

Married filing jointly or Qualifying widow(er), \$12,600

Head of household, \$9,300

38	Amount from line 37 (adjusted gross income)	38	131,773
39a	Check <input type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a <input type="checkbox"/> 39b <input type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	28,444
41	Subtract line 40 from line 38	41	103,329
42	Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	16,200
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	87,129
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	12,664
45	Alternative minimum tax (see instructions). Attach Form 6251	45	0
46	Excess advance premium tax credit repayment. Attach Form 8962	46	
47	Add lines 44, 45, and 46	47	12,664
48	Foreign tax credit. Attach Form 1116 if required	48	0
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	0
52	Child tax credit. Attach Schedule 8812, if required	52	
53	Residential energy credits. Attach Form 5695	53	
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	0
55	Add lines 48 through 54. These are your total credits	55	0
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	12,664

## Other Taxes

57	Self-employment tax. Attach Schedule SE	57	4,996
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	0
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	0
60a	Household employment taxes from Schedule H	60a	0
60b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	0
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	0
63	Add lines 56 through 62. This is your total tax	63	17,660

## Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	13,800
65	2016 estimated tax payments and amount applied from 2015 return	65	4,000
66a	Earned income credit (EIC)	66a	
66b	Nontaxable combat pay election	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	0
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	0
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	17,800

## Refund

Direct deposit? See instructions.

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	140
76a	Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a	140
b	Routing number XXXXXXXXXX	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number XXXXXXXXXXXXXXXXXXXX		
77	Amount of line 75 you want applied to your 2017 estimated tax	77	0

## 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	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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
<input type="text"/>	<input type="text"/>	Regional Manager	312-555-1197
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
<input type="text"/>	<input type="text"/>	Architect	<input type="text"/>

## 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)

**Itemized Deductions**

 ▶ Information about Schedule A and its separate instructions is at [www.irs.gov/schedulea](http://www.irs.gov/schedulea).

▶ Attach to Form 1040.

OMB No. 1545-0074

**2016**

 Attachment  
 Sequence No. **07**

Name(s) shown on Form 1040

Steven B Marshall

Your social security number

123-45-6486

<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	9,800
	2	Enter amount from Form 1040, line 38	2	131,773
	3	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3	13,177
	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 type="checkbox"/> Income taxes, or		5	3,200
	b. <input checked="" type="checkbox"/> General sales taxes			
	6	Real estate taxes (see instructions)	6	4,200
	7	Personal property taxes	7	0
	8	Other taxes. List type and amount ▶	8	0
	9	Add lines 5 through 8	9	7,400
<b>Interest You Paid</b>	10	Home mortgage interest and points reported to you on Form 1098	10	3,500
	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	3,500
<b>Gifts to Charity</b>	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	1,200
	17	Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500	17	0
	18	Carryover from prior year	18	0
	19	Add lines 16 through 18	19	1,200
<b>Casualty and Theft Losses</b>	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	0
<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.) ▶ Form 2106		
			21	17,779
	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	17,779
	25	Enter amount from Form 1040, line 38	25	131,773
	26	Multiply line 25 by 2% (0.02)	26	2,635
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	15,144
<b>Other Miscellaneous Deductions</b>	28	Other—from list in instructions. List type and amount ▶ GAMBLING LOSSES		
				1,200
<b>Total Itemized Deductions</b>	29	Is Form 1040, line 38, over \$155,650?		
		<input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.	29	28,444
		<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ▶		

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

Schedule A (Form 1040) 2016



**SCHEDULE C  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Profit or Loss From Business**

(Sole Proprietorship)

OMB No. 1545-0074

**2016**Attachment  
Sequence No. **09**▶ Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).  
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor Debra S Marshall		Social security number (SSN) 123-45-6787
A Principal business or profession, including product or service (see instructions) Structural designs, construction plans		B Enter code from instructions 541310
C Business name. If no separate business name, leave blank. Debra Marshall Architecture		D Employer ID number (EIN), (see instr.)
E Business address (including suite or room no.) ▶ 426 East Twin Oaks Road City, town or post office, state, and ZIP code Sioux Falls SD 57105		
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 2016? 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 2016, check here . . .		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
I Did you make any payments in 2016 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	52,000
2 Returns and allowances . . . . .	2	
3 Subtract line 2 from line 1 . . . . .	3	52,000
4 Cost of goods sold (from line 42) . . . . .	4	0
5 Gross profit. Subtract line 4 from line 3 . . . . .	5	52,000
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	52,000

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

8 Advertising . . . . .	8		18 Office expense (see instructions) . . .	18	
9 Car and truck expenses (see instructions) . . . . .	9	508	19 Pension and profit-sharing plans . . .	19	
10 Commissions and fees . . . . .	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions) . . . . .	11		a Vehicles, machinery, and equipment . .	20a	0
12 Depletion . . . . .	12		b Other business property . . . . .	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . . . .	13	800	21 Repairs and maintenance . . . . .	21	
14 Employee benefit programs (other than on line 19) . . . . .	14		22 Supplies (not included in Part III) . . .	22	8,000
15 Insurance (other than health) . . . . .	15		23 Taxes and licenses . . . . .	23	400
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.) . . . . .	16a		a Travel . . . . .	24a	0
b Other . . . . .	16b		b Deductible meals and entertainment (see instructions) . . .	24b	0
17 Legal and professional services . . . . .	17		25 Utilities . . . . .	25	
			26 Wages (less employment credits) . . .	26	
			27a Other expenses (from line 48) . . . . .	27a	1,290
			b Reserved for future use . . . . .	27b	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a . . . . .	28			28	10,998
29 Tentative profit or (loss). Subtract line 28 from line 7 . . . . .	29			29	41,002
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .	30			30	5,641
31 Net profit or (loss). Subtract line 30 from line 29. • 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 instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31			31	35,361
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 type="checkbox"/> All investment is at risk.
				32b	<input type="checkbox"/> Some investment is not at risk.

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Schedule C (Form 1040) 2016

Schedule C (Form 1040) 2016

Debra

S Marshall

123-45-6787

Page **2****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 2016, 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.

Work Clothes	800
Professional Journals	250
Professional Dues	240
48 Total other expenses. Enter here and on line 27a . . . . .	48 1,290

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Schedule C (Form 1040) 2016

**SCHEDULE D  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Capital Gains and Losses**

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Schedule D and its separate instructions is at [www.irs.gov/scheduled](http://www.irs.gov/scheduled).  
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

**2016**Attachment  
Sequence No. **12**

Name(s) shown on return

Steven B Marshall

Your social security number

123-45-6486

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>1a</b> Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b	0	0		0
<b>1b</b> Totals for all transactions reported on Form(s) 8949 with <b>Box A</b> checked	0	0	0	0
<b>2</b> Totals for all transactions reported on Form(s) 8949 with <b>Box B</b> checked	0	0	0	0
<b>3</b> Totals for all transactions reported on Form(s) 8949 with <b>Box C</b> checked	0	5,500	0	-5,500
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				0
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> in the instructions.				(0)
<b>7</b> <b>Net short-term capital gain or (loss).</b> Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on page 2				-5,500

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
<b>8a</b> Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b	0	0		0
<b>8b</b> Totals for all transactions reported on Form(s) 8949 with <b>Box D</b> checked	0	0	0	0
<b>9</b> Totals for all transactions reported on Form(s) 8949 with <b>Box E</b> checked	0	0	0	0
<b>10</b> Totals for all transactions reported on Form(s) 8949 with <b>Box F</b> checked	0	16,000	0	-16,000
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				25,000
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				
<b>13</b> Capital gain distributions. See the instructions				0
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> in the instructions				(0)
<b>15</b> <b>Net long-term capital gain or (loss).</b> Combine lines 8a through 14 in column (h). Then go to Part III on page 2				9,000

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Schedule D (Form 1040) 2016

**Part III Summary**

<b>16</b>	Combine lines 7 and 15 and enter the result . . . . .	<b>16</b>	3,500
	<ul style="list-style-type: none"> <li>• If line 16 is a <b>gain</b>, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.</li> <li>• If line 16 is a <b>loss</b>, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> <li>• If line 16 is <b>zero</b>, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul>		
<b>17</b>	Are lines 15 and 16 <b>both</b> gains? <input checked="" type="checkbox"/> <b>Yes.</b> Go to line 18. <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.		
<b>18</b>	Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> in the instructions . . . . . ▶	<b>18</b>	0
<b>19</b>	Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions . . . . . ▶	<b>19</b>	0
<b>20</b>	Are lines 18 and 19 <b>both</b> zero or blank? <input checked="" type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <b>Don't</b> complete lines 21 and 22 below. <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Don't</b> complete lines 21 and 22 below.		
<b>21</b>	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.	<b>21</b>	( )
<b>22</b>	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? <input type="checkbox"/> <b>Yes.</b> Complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040 and Form 1040NR.		

KIA

Schedule D (Form 1040) 2016



Form **8949**Department of the Treasury  
Internal Revenue Service**Sales and Other Dispositions of Capital Assets**► Information about Form 8949 and its separate instructions is at [www.irs.gov/form8949](http://www.irs.gov/form8949)

► File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

**2016**Attachment  
Sequence No. **12A**

Name(s) shown on return

Steven B Marshall

Social security number or taxpayer identification number

123-45-6486

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

**Part I** **Short-Term.** Transactions involving capital assets you held 1 year or less are short-term. For long-term transactions, see page 2.

**Note.** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

**You must check Box A, B, or C below. Check only one box.** If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ (B) Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☒ (C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). <b>See the separate instructions.</b>		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Nonbusiness bad debt	04/04/15	01/01/16	0	5,500		0	-5,500
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
<b>2 Totals.</b>	Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, <b>line 1b</b> (if <b>Box A</b> above is checked), <b>line 2</b> (if <b>Box B</b> above is checked), or <b>line 3</b> (if <b>Box C</b> above is checked).			0	5,500		0	-5,500

**Note.** If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2016)

Attachment Sequence No. **12A**Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on Page 1

Steven B Marshall

Social security number or taxpayer identification number

123-45-6486

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

**Part II** **Long-Term.** Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

**Note.** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

**You must check Box D, E, or F below. Check only one box.** If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS

☒ **(F)** Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	1000 sh FMA common stock	08/05/14	WORTHLESS	WORTHLESS	16,000		0	-16,000
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
<b>2 Totals.</b> Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, <b>line 8b</b> (if <b>Box D</b> above is checked), <b>line 9</b> (if <b>Box E</b> above is checked), or <b>line 10</b> (if <b>Box F</b> above is checked)				0	16,000		0	-16,000

**Note.** If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

KIA

Form **8949** (2016)

**SCHEDULE SE**  
**(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Self-Employment Tax**► Information about Schedule SE and its separate instructions is at [www.irs.gov/schedulese](http://www.irs.gov/schedulese).

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

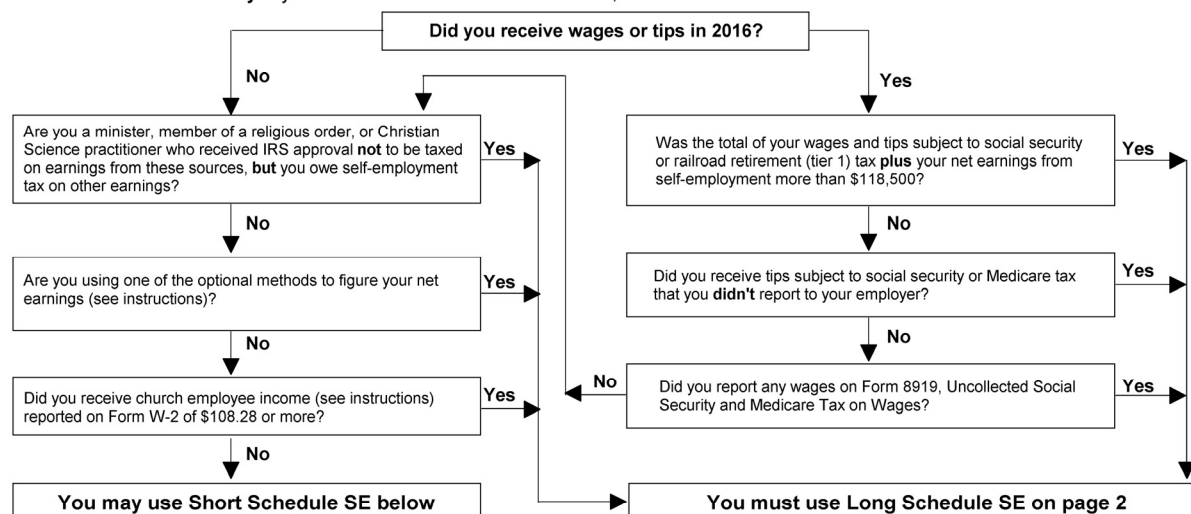
**2016**Attachment  
Sequence No. **17**Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)

Debra S Marshall

Social security number of person

with **self-employment** income ►

123-45-6787

**Before you begin:** To determine if you must file Schedule SE, see the instructions.**May I Use Short Schedule SE or Must I Use Long Schedule SE?****Note.** Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.**Section A—Short Schedule SE.** Caution. Read above to see if you can use Short Schedule SE.

<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. . . . .	<b>1a</b>	0
<b>b</b> If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z . . .	<b>1b</b>	( 0 )
<b>2</b> Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report . . . . .	<b>2</b>	35,361
<b>3</b> Combine lines 1a, 1b, and 2. . . . .	<b>3</b>	35,361
<b>4</b> Multiply line 3 by 92.35% (0.9235). If less than \$400, you don't owe self-employment tax; <b>don't</b> file this schedule unless you have an amount on line 1b . . . . .	<b>4</b>	32,656
<b>Note.</b> If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
<b>5 Self-employment tax.</b> If the amount on line 4 is: • \$118,500 or less, multiply line 4 by 15.3% (0.153). Enter the result here and on <b>Form 1040</b> , line 57, or <b>Form 1040NR</b> , line 55. • More than \$118,500, multiply line 4 by 2.9% (0.029). Then, add \$14,694 to the result. Enter the total here and on <b>Form 1040</b> , line 57, or <b>Form 1040NR</b> , line 55. . . . .	<b>5</b>	4,996
<b>6 Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (0.50). Enter the result here and on <b>Form 1040</b> , line 27, or <b>Form 1040NR</b> , line 27 . . . . .	<b>6</b>	2,498

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Schedule SE (Form 1040) 2016