Solutions Manual for Income Tax Fundamentals 2019 37th Whittenburg

CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 – Multiple Choice Questions

1. C (LO 2.1)
2. C (LO 2.1)
3. A (LO 2.1)
4. D (LO 2.1)
5. B (LO 2.1)
6. D (LO 2.3, 2.4, 2.11, 2.12)
7. A (LO 2.3)
8. E (LO 2.4)
9. D (LO 2.5)
10. E (LO 2.5)
11. E (LO 2.6)
12. D (LO 2.6)
13. B $97,500/260 = $375 x 4 = $1,500 (LO 2.7)
14. D (LO 2.7)
15. C (LO 2.8)
16. A (LO 2.8)
17. C $500 x 20% (LO 2.9)
18. A (LO 2.9)
19. D (LO 2.10)
20. C (LO 2.11)
21. C (LO 2.12)
22. C $120 x 12 (LO 2.13)
23. D (LO 2.13)
24. B ($2,000/$5,000 x $1,400) (LO 2.14)
25. B (LO 2.14)
26. C (LO 2.14)
27. D (LO 2.14)
28. D (LO 2.14)
29. C ($110,000 – ($91,500 + $11,000))/($15,000 x $2,000) (LO 2.14)
30. C ($3,000 / $5,000 x $1,500 = $900) (LO 2.14)
31. E (LO 2.15)
32. A (LO 2.16)
33. E (LO 2.16)
34. E $35,000 each (LO 2.17)
35. B (LO 2.17)

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 a truck for services performed is includable income to Jane. 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. The amount of gross income is the market value on the date of the payment which is $6,000. Jane can probably also recognize the $800 loss on the sale of the truck since it was business property. (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. a. $61,700. Taxable wages are taken from Box 1.
   b. It would appear that Kristen made $3,500 of contributions toward her employer's 401(k) plan. The health care and group term life does not create a difference between Box 1 and wages taxable for Social Security and Medicare in Boxes 3 and 5. (LO 2.2)

6. 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 2.3)

7. **$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 2.3)

8. 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 2.4)

9. **$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 2.5)

10. Yes. Tom will be better off reducing his taxable income by $2,650 by using the health care flexible spending account. Since his income will be $2,650 less, he will pay less tax than he would otherwise. (LO 2.5)

11. a. **$6,400**.
    b. **$260**. A non-qualified plan award may only be excluded up to $400; thus, $260 is taxable.
    c. **$1,000,000**.
    d. **$30,000**. (LO 2.6)

12. a. **$4,000**.
    b. **$14,500**.
    c. **$0**. (LO 2.6, 2.12)

13. SIMPLIFIED METHOD WORKSHEET

1)	Enter total amount received this year.		1) $ 7,000
2)	Enter cost in the plan at the annuity starting date.		2) $48,300
3)	Age at annuity starting date	*Enter*	
	55 and under	360	
	56–60	310	
	61–65	260	3) 210
	66–70	210	
	71 and older	160	
4)	Divide line 2 by line 3.		4) $ 230
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) $ 1,610
6)	Enter the amount, if any, recovered tax free in prior years		6) $ 0
7)	Subtract line 6 from line 2.		7) $48,300
8)	Enter the smaller of line 5 or 7.		8) $ 1,610
9)	Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero.		9) $ 5,390

(LO 2.7)

14. **$61,000** = $100,000 – $27,000 – $12,000. 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 2.8)

15. **$500**. A beneficiary, must include the entire amount of interest received with respect to the policy proceeds in gross income. The $9,000 principal amount may be excluded from gross income. (LO 2.8)
16. David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.8)
17. None of the payment is taxable. Life insurance proceeds are generally considered to be tax-free and specifically excluded from taxable income. (LO 2.8)
18. Qualified dividends are taxed at either 0%, 15%, or 20% depending on income and filing status. For example, a single taxpayer with income below $36,800 has a capital gain rate of 0%. Income over $38,600 but below $425,800 pays at 15% and the capital gains rate is 20% for income above that. A 3.8% Medicare tax on net investment income will be added to the rates for certain high-income taxpayers. (LO 2.9)
19. The taxpayer can either (1) report the interest in the year the bonds are cashed or in the year they mature, whichever is earlier (no election is required to use this method), or (2) the taxpayer may elect to report the increase in redemption value each year. (LO 2.9)
20. See Schedule B on Page 42. (LO 2.9)
21. **6.00%** = 4.5% ÷ (100% – 25%). (LO 2.10)
22. The tax-exempt municipal bond has the same 5% before and after-tax rate of return. The corporate bond has an after-tax return of 4.55% (7% x (1 – 35%)). Karen should invest in the tax-exempt bond due to the higher after-tax rate of return. (LO 2.10)
23. **$5,600**. Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.11)
24. $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 2.11)
25. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.11)
26. $12,000 is taxable since there is no exclusion for payments made for room and board. $8,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. (LO 2.12)
27. a. (1) **$450**.
    (2) **$450**.
    (3) **$0**.

    b. (1) **$0**.
    (2) **$425,000**.
    (LO 2.13)
28. 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 2.13)
29. 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 2.13)
30. **$11,947**; Tuition, room and board, and books. (LO 2.14)
31. **$0**; All distributions are used for qualifying expenses. (LO 2.14)
32. **$3,250**. Unemployment benefits received are included in gross income. (LO 2.15)
33. As calculated on the worksheet on Page 43. (LO 2.16)
34. 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 benefits in taxable income. (LO 2.16)

Group 2: Problem 20

SCHEDULE B (Form 1040) — **Interest and Ordinary Dividends** — OMB No. 1545-0074 — **2018**

Department of the Treasury Internal Revenue Service (99)

▶ Go to *www.irs.gov/ScheduleB* for instructions and the latest information.
▶ Attach to Form 1040.

Attachment Sequence No. **08**

Name(s) shown on return: Charles and Sally Heck — **Your social security number**: 313-13-1313

Part I Interest

(See instructions and the instructions for Form 1040, line 2b.)

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	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address ▶		
	Porcine Bank	1	1,245
	River Bank		650
	[note that municipal bond interest is reported directly on Form 1040]		
2	Add the amounts on line 1	2	1,895
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 2b ▶	4	1,895

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

Part II Ordinary Dividends

(See instructions and the instructions for Form 1040, line 3b.)

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.

			Amount
5	List name of payer ▶		
	Altus, Inc.	5	2,000
	Buller Corporation		350
	Gene Corporation		3,100
	Devona Corporation		850
	[note that qualified dividends are part of total dividends and are reported for informational purposes on Form 1040]		
6	Add the amounts on line 5. Enter the total here and on Form 1040, line 3b ▶	6	6,300

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

Part III Foreign Accounts and Trusts

(See instructions.)

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.

		Yes	No
7a	At any time during 2018, 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		X
	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		X
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 2018, 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		X

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040) 2018**

Group 2: Problem 33

1.	Enter the total amount of social security income	**1.**	$7,400
2.	Enter one-half of line 1	**2.**	3,700
3.	Enter the total of taxable income items on Form 1040 except social security income	**3.**	14,500
4.	Enter the amount of tax exempt interest income	**4.**	30,000
5.	Add lines 2, 3, and 4	**5.**	48,200
6.	Enter all adjustments for AGI except for student loan interest, the domestic production activities deduction and the tuition and fees deduction	**6.**	-0-
7.	Subtract line 6 from line 5. If zero or less, stop here, none of the social security benefits are taxable	**7.**	48,200
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.**	25,000
9.	Subtract line 8 from line 7. If zero or less, enter -0-	**9.**	23,200
Note:	*If line 9 is zero or less, stop here;* **none of your benefits are taxable**. *Otherwise, go on to line 10.*		
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.**	9,000
11.	Subtract line 10 from line 9. If zero or less, enter -0-	**11.**	14,200
12.	Enter the **smaller** of line 9 or line 10	**12.**	9,000
13.	Enter one-half of line 12	**13.**	4,500
14.	Enter the **smaller** of line 2 or line 13	**14.**	3,700
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	**15.**	12,070
16.	Add lines 14 and 15	**16.**	15,770
17.	Multiply line 1 by 85% (.85)	**17.**	6,290
18.	**Taxable benefits**. Enter the **smaller** of line 16 or line 17	**18.**	$6,290

Group 3 – Writing Assignment

Research Solution:

Whittenburg and Gill, CPAs
San Diego, CA 92111
August 3, 20xx

Ms. Vanessa Lazo
1550 Mesa Rosa Drive
San Diego, CA 92182

Dear Ms. Lazo,

Thank you for requesting my advice concerning the tax treatment of your scholarship and employment at Prestige Private University (PPU). I have researched your question and have determined that a portion of your scholarship is taxable, but a portion is excluded from gross income.

The tuition reduction from $43,000 to $13,000 is not considered gross income that you must report as taxable. This simply represents a lower negotiated price for tuition in much the same way when you negotiate a price below the sticker price for a new car. That purchase price reduction is not income.

PPU is providing you with a $20,000 scholarship. The portion you use for tuition ($13,000) is excluded from gross income as a qualified scholarship; however, the additional $7,000 being used for room and board is taxable and must be included in gross income.

Lastly, a payment for services such as the $1,500 you are receiving for serving as a lab assistant, is compensation and is included in gross income.

As a result, your total gross income from PPU will be $8,500 and the excludable scholarship is $13,000.

My conclusion is based upon the facts that you have provided me. If you have any questions or would like further explanation, please do not hesitate to call.

Sincerely,
Trevor Malcolm
for Whittenburg and Gill, CPAs

Group 4 – Comprehensive Problems

1. See pages 45 through 48.

2A. See pages 49 through 51.

2B. See pages 53 through 55.

Group 5 – Cumulative Software Problem

The solution to the Cumulative Software Problem is posted on the website for the textbook at *www.cengage.com/login*.

Comprehensive Problem 1

Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
Beverly	Hair	465 74 3321

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Ken	Hair	465 57 9934

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
3567 River Street

Presidential Election Campaign (see inst.) ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.
Springfield, MO 63126

If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Accountant	
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.)
		Student	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Comprehensive Problem 1, cont.

Form 1040 (2018) Page **2**

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	53,400
2a	Tax-exempt interest — 2a: 1,000 / **b** Taxable interest	2b	648
3a	Qualified dividends — 3a: 300 / **b** Ordinary dividends	3b	300
4a	IRAs, pensions, and annuities — 4a / **b** Taxable amount	4b	
5a	Social security benefits — 5a / **b** Taxable amount	5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 — 1,825	6	56,173
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	56,173
8	**Standard deduction or itemized deductions** (from Schedule A)	8	24,000
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	32,173
11	**a** Tax (see inst) 3,444 (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐ ____) **b Add** any amount from Schedule 2 and check here ▶ ☐	11	3,444
12	**a** Child tax credit/credit for other dependents ____ **b Add** any amount from Schedule 3 and check here ▶ ☐	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	3,444
14	Other taxes. Attach Schedule 4	14	
15	Total tax. Add lines 13 and 14	15	3,444
16	Federal income tax withheld from Forms W-2 and 1099	16	4,892
17	Refundable credits: **a** EIC (see inst.) ____ **b** Sch 8812 ____ **c** Form 8863 ____ **Add** any amount from Schedule 5 ____	17	
18	Add lines 16 and 17. These are your total payments	18	4,892
19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	1,448
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	20a	1,448
b	Routing number ____ ▶ **c** Type: ☐ Checking ☐ Savings		
d	Account number ____		
21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21 ____		
22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶	22	
23	Estimated tax penalty (see instructions) ▶ 23 ____		

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

Standard Deduction for—
- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

Refund

Direct deposit? See instructions. ▶

Amount You Owe

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

Comprehensive Problem 1, cont.

SCHEDULE 1 (Form 1040) — Department of the Treasury, Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 — 2018 — Attachment Sequence No. 01

Name(s) shown on Form 1040: Beverly and Ken Hair — Your social security number: 465-74-3321

Additional Income	1–9b	Reserved			1–9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes			10	
	11	Alimony received			11	
	12	Business income or (loss). Attach Schedule C or C-EZ			12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			13	
	14	Other gains or (losses). Attach Form 4797			14	
	15a	Reserved			15b	
	16a	Reserved			16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	
	18	Farm income or (loss). Attach Schedule F			18	
	19	Unemployment compensation			19	1,825
	20a	Reserved			20b	
	21	Other income. List type and amount ▶			21	
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23			22	1,825
Adjustments to Income	23	Educator expenses	23			
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
	25	Health savings account deduction. Attach Form 8889	25			
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26			
	27	Deductible part of self-employment tax. Attach Schedule SE	27			
	28	Self-employed SEP, SIMPLE, and qualified plans	28			
	29	Self-employed health insurance deduction	29			
	30	Penalty on early withdrawal of savings	30			
	31a	Alimony paid **b** Recipient's SSN ▶	31a			
	32	IRA deduction	32			
	33	Student loan interest deduction	33			
	34	Reserved	34			
	35	Reserved	35			
	36	Add lines 23 through 35			36	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Comprehensive Problem 1, cont.

Qualified Dividends and Capital Gain Tax Worksheet—Line 11a

Keep for Your Records

Before you begin:
- ✓ See the earlier instructions for line 11a to see if you can use this worksheet to figure your tax.
- ✓ Before completing this worksheet, complete Form 1040 through line 10.
- ✓ If you don't have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Schedule 1.

1.	Enter the amount from Form 1040, line 10. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the Foreign Earned Income Tax Worksheet . . . . . **1.**		32,173	
2.	Enter the amount from Form 1040, line 3a* . . . . **2.**	300		
3.	Are you filing Schedule D?* ☐ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or 16 is blank or a loss, enter -0-. ☒ **No.** Enter the amount from Schedule 1, line 13. } **3.**	0		
4.	Add lines 2 and 3 . . . . . **4.**	300		
5.	If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0- . . . . . **5.**	0		
6.	Subtract line 5 from line 4. If zero or less, enter -0- . . . . . **6.**		300	
7.	Subtract line 6 from line 1. If zero or less, enter -0- . . . . . **7.**		31,873	
8.	Enter: $38,600 if single or married filing separately, $77,200 if married filing jointly or qualifying widow(er), $51,700 if head of household. } . . . . . **8.**		77,200	
9.	Enter the smaller of line 1 or line 8 . . . . . **9.**		32,173	
10.	Enter the smaller of line 7 or line 9 . . . . . **10.**		31,873	
11.	Subtract line 10 from line 9. This amount is taxed at 0% . . . . . **11.**		300	
12.	Enter the smaller of line 1 or line 6 . . . . . **12.**		300	
13.	Enter the amount from line 11 . . . . . **13.**		300	
14.	Subtract line 13 from line 12 . . . . . **14.**		0	
15.	Enter: $425,800 if single, $239,500 if married filing separately, $479,000 if married filing jointly or qualifying widow(er), $452,400 if head of household. } . . . . . **15.**		479,000	
16.	Enter the smaller of line 1 or line 15 . . . . . **16.**		32,173	
17.	Add lines 7 and 11 . . . . . **17.**		32,173	
18.	Subtract line 17 from line 16. If zero or less, enter -0- . . . . . **18.**		0	
19.	Enter the smaller of line 14 or line 18 . . . . . **19.**		0	
20.	Multiply line 19 by 15% (0.15) . . . . . **20.**			0
21.	Add lines 11 and 19 . . . . . **21.**		300	
22.	Subtract line 21 from line 12 . . . . . **22.**		0	
23.	Multiply line 22 by 20% (0.20) . . . . . **23.**			0
24.	Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet . . . . . **24.**			3,444
25.	Add lines 20, 23, and 24 . . . . . **25.**			3,444
26.	Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet . . . . . **26.**			3,480
27.	**Tax on all taxable income.** Enter the **smaller** of line 25 or 26. Also include this amount on the entry space on Form 1040, line 11a. If you are filing Form 2555 or 2555-EZ, don't enter this amount on the entry space on Form 1040, line 11a. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet . . . . . **27.**			3,444

* *If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet before completing this line.*

Comprehensive Problem 2A

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
Ray	Gomez	469 21 5523

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Maria	Gomez	444 65 9912

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Presidential Election Campaign (see inst.) ☐ You ☐ Spouse
1610 Quince Avenue		

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.	If more than four dependents, see inst. and ✓ here ► ☐
McAllen, TX 78701	

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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.

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

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Salesperson	
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.)
		Clerk	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Comprehensive Problem 2A, cont.

Form 1040 (2018) Page **2**

	1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	62,600
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	2a	Tax-exempt interest 2a ; **b** Taxable interest	2b	650
	3a	Qualified dividends 3a ; **b** Ordinary dividends	3b	
	4a	IRAs, pensions, and annuities 4a ; **b** Taxable amount	4b	
	5a	Social security benefits 5a ; **b** Taxable amount	5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 4,000	6	67,250
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	61,850
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)	8	24,000
	9	Qualified business income deduction (see instructions)	9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	37,850
	11	**a** Tax (see inst) 4,164 (check if any from: **1** ☐ Form(s) 8814 **2** ☐ Form 4972 **3** ☐) **b Add** any amount from Schedule 2 and check here ▶ ☐	11	4,164
	12	**a** Child tax credit/credit for other dependents ; **b Add** any amount from Schedule 3 and check here ▶ ☐	12	
	13	Subtract line 12 from line 11. If zero or less, enter -0-	13	4,164
	14	Other taxes. Attach Schedule 4	14	
	15	Total tax. Add lines 13 and 14	15	4,164
	16	Federal income tax withheld from Forms W-2 and 1099	16	5,970
	17	Refundable credits: **a** EIC (see inst.) ; **b** Sch 8812 ; **c** Form 8863 ; **Add** any amount from Schedule 5	17	
	18	Add lines 16 and 17. These are your total payments	18	5,970
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	1,806
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	20a	1,806
Direct deposit? See instructions. ▶	b	Routing number ; ▶ **c** Type: ☐ Checking ☐ Savings		
▶	d	Account number		
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21		
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶	22	
	23	Estimated tax penalty (see instructions) ▶ 23		

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

Comprehensive Problem 2A, cont.

SCHEDULE 1 (Form 1040) — Department of the Treasury, Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074 — 2018 — Attachment Sequence No. 01

Name(s) shown on Form 1040: Ray and Maria Gomez — Your social security number: 469-21-5523

Additional Income	1–9b	Reserved	1–9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	Reserved	15b	
	16a	Reserved	16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	
	20a	Reserved	20b	
	21	Other income. List type and amount ▶ Lottery winnings	21	4,000
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	4,000

Adjustments to Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid **b** Recipient's SSN ▶ 566-74-8765	31a	5,400
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Reserved	34	
	35	Reserved	35	
	36	Add lines 23 through 35	36	5,400

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Comprehensive Problem 2B

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
Carl	Conch	835 21 5423

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Mary	Duval	633 65 7912

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Presidential Election Campaign (see inst.)
1234 Mallory Square	64	☒ You ☒ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.	If more than four dependents, see inst. and ✓ here ► ☐
Key West, FL 33040	

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Pie Maker	
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.)
		Homemaker	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Comprehensive Problem 2B, cont.

Form 1040 (2018) Page **2**

	1	Wages, salaries, tips, etc. Attach Form(s) W-2		1	67,700
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	2a	Tax-exempt interest . . . 2a	b Taxable interest	2b	355
	3a	Qualified dividends . . . 3a	b Ordinary dividends	3b	210
	4a	IRAs, pensions, and annuities . 4a	b Taxable amount	4b	
	5a	Social security benefits . . 5a	b Taxable amount	5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 3,550		6	71,815
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6		7	71,815
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)		8	24,000
	9	Qualified business income deduction (see instructions)		9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-		10	47,815
	11	**a** Tax (see inst) 5,358 (check if any from: **1** ☐ Form(s) 8814 **2** ☐ Form 4972 **3** ☐ ______) **b Add** any amount from Schedule 2 and check here ▶ ☐		11	5,358
	12	**a** Child tax credit/credit for other dependents ______ **b Add** any amount from Schedule 3 and check here ▶ ☐		12	
	13	Subtract line 12 from line 11. If zero or less, enter -0-		13	5,358
	14	Other taxes. Attach Schedule 4		14	
	15	Total tax. Add lines 13 and 14		15	5,358
	16	Federal income tax withheld from Forms W-2 and 1099		16	6,860
	17	Refundable credits: **a** EIC (see inst.) ______ **b** Sch 8812 ______ **c** Form 8863 ______ **Add** any amount from Schedule 5 ______		17	
	18	Add lines 16 and 17. These are your total payments		18	6,860
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**		19	1,502
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐		20a	1,502
Direct deposit? See instructions. ▶	b	Routing number	▶ **c** Type: ☐ Checking ☐ Savings		
▶	d	Account number			
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21			
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶		22	
	23	Estimated tax penalty (see instructions) ▶ 23			

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

Comprehensive Problem 2B, cont.

SCHEDULE 1 (Form 1040) — Department of the Treasury, Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. 01

Name(s) shown on Form 1040: Carl Conch and Mary Duval
Your social security number: 835-21-5423

Additional Income	1–9b	Reserved	1–9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	Reserved	15b	
	16a	Reserved	16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	2,800
	20a	Reserved	20b	
	21	Other income. List type and amount ▶ Raffle prize	21	750
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	3,550
Adjustments to Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid **b** Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Reserved	34	
	35	Reserved	35	
	36	Add lines 23 through 35	36	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Key Number Tax Return Summary

Chapter 2

Comprehensive Problem 1

Adjusted Gross Income (Line 7)	56,173
Taxable Income (Line 10)	32,173
Total Tax (Line 15)	3,444
Amount Overpaid (Line 19)	1,448

Comprehensive Problem 2A

Adjusted Gross Income (Line 7)	61,850
Taxable Income (Line 10)	37,850
Total Tax (Line 15)	4,164
Amount Overpaid (Line 19)	1,806

Comprehensive Problem 2B

Adjusted Gross Income (Line 7)	71,815
Taxable Income (Line 10)	47,815
Total Tax (Line 15)	5,358
Amount Overpaid (Line 19)	1,502

Form **1040** Department of the Treasury — Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only — Do not write or staple in this space.

Filing status: [ ] Single [X] Married filing jointly [ ] Married filing separately [ ] Head of household [ ] Qualifying widow(er)

Your first name and initial	Last name	**Your social security number**
Ken Hair		465-57-9934

Your standard deduction: [ ] Someone can claim you as a dependent [ ] You were born before January 2, 1954 [ ] You are blind

If joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Bev Hair		465-74-3321

Spouse standard deduction: [ ] Someone can claim your spouse as a dependent [ ] Spouse was born before January 2, 1954 [X] Full-year health care coverage or exempt (see inst.)

[ ] Spouse is blind [ ] Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
3567 River Street

Presidential Election Campaign (see inst.) [ ] **You** [ ] **Spouse**

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.
Springfield, MO 63126

If more than four dependents, see inst. and ✓ here ► [ ]

Dependents (see instructions): (1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				[ ]	[ ]
				[ ]	[ ]
				[ ]	[ ]
				[ ]	[ ]

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Student	
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.)
		Accountant	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if:
	Self-Prepared			[ ] 3rd Party Designee
Firm's name ►		Phone no.		[ ] Self-employed
Firm's address ►				

BAA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** (2018)

FDIA0112L 10/02/18

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	53,400.
2a	Tax-exempt interest	2a	1,000.	**b** Taxable interest 2b	648.
3a	Qualified dividends	3a	300.	**b** Ordinary dividends 3b	300.
4a	IRAs, pensions, and annuities	4a		**b** Taxable amount 4b	
5a	Social security benefits	5a		**b** Taxable amount 5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22		1,825.	6	56,173.
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	56,173.
8	**Standard deduction or itemized deductions** (from Schedule A)			8	24,000.
9	Qualified business income deduction (see instructions)			9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter –0–			10	32,173.
11	**a** Tax (see inst.) 3,444. (check if any from: **1** ☐ Form(s) 8814 **2** ☐ Form 4972 **3** ☐) **b Add** any amount from Schedule 2 and check here ► ☐			11	3,444.
12	**a** Child tax credit/credit for other dependents **b Add** any amount from Schedule 3 and check here ► ☐			12	
13	Subtract line 12 from line 11. If zero or less, enter -0-			13	3,444.
14	Other taxes. Attach Schedule 4			14	
15	Total tax. Add lines 13 and 14			15	3,444.
16	Federal income tax withheld from Forms W-2 and 1099			16	4,892.
17	Refundable credits: **a** EIC (see inst.) **b** Sch. 8812 **c** Form 8863 Add any amount from Schedule 5			17	
18	Add lines 16 and 17. These are your total payments			18	4,892.

Standard Deduction for –
- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

Refund

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**		19	1,448.
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ► ☐		20a	1,448.
► b	Routing number XXXXXXXXXX ► **c** Type: ☐ Checking ☐ Savings			
► d	Account number XXXXXXXXXXXXXXXXXXXXXXXX			
21	Amount of line 19 you want **applied to your 2019 estimated tax** ►	21		

Direct deposit? See instructions.

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ►		22	
23	Estimated tax penalty (see instructions)	23		

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. **01**

Name(s) shown on Form 1040	Your social security number
Ken and Bev Hair	465-57-9934

Additional Income

1–9b	Reserved	1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Reserved	15b	
16a	Reserved	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	1,825.
20a	Reserved	20b	
21	Other income. List type and amount	21	
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	1,825.

Adjustments to Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Reserved	34	
35	Reserved	35	
36	Add lines 23 through 35	36	0.

BAA For Paperwork Reduction Act Notice, see your tax return instructions. **Schedule 1 (Form 1040) 2018**

Wage Schedule

Taxpayer - Employer	Wages	Federal W/H	FICA	Medi-care	State W/H	Local W/H
	2,700.		167.	39.		
Total	2,700.	0.	167.	39.	0.	0.

Spouse - Employer	Wages	Federal W/H	FICA	Medi-care	State W/H	Local W/H
	50,700.	4,892.	3,143.	735.		
Total	50,700.	4,892.	3,143.	735.		0.
Grand Total	53,400.	4,892.	3,310.	774.	0.	0.

Form 1040, Line 2b
Interest Income

Boatman's Bank	648.
Total	648.

Form 1040, Line 2a
Tax-Exempt Interest

Payer	In-state municipal bonds	Private activity bonds	Total municipal bonds
City of St. Louis			1,000.
	0.	0.	1,000.

Form 1040, Line 3b
Dividend Income

Green Corporation	300.
Total	300.

Form 1040, Line 3a
Qualified Dividends

Green Corporation	300.
Total	300.

Qualified Dividends and Capital Gain Tax Worksheet (Form 1040, Line 11)

1.	Enter the amount from Form 1040, line 10		32,173.
2.	Enter the amount from Form 1040, line 3a	300.	
3.	Are you filing Schedule D? [ ] Yes. Enter the smaller of line 15 or 16 of Schedule D, but do not enter less than zero [X] No. Enter the amount from Schedule 1, line 13	0.	
4.	Add lines 2 and 3	300.	
5.	If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise enter zero.	0.	
6.	Subtract line 5 from line 4. If zero or less, enter zero.		300.
7.	Subtract line 6 from line 1. If zero or less, enter zero.		31,873.
8.	Enter: $38,600 if single or married filing separately, $77,200 if married filing jointly or qualifying widow(er), $51,700 if head of household		77,200.
9.	Enter the smaller of line 1 or line 8		32,173.
10.	Enter the smaller of line 7 or line 9		31,873.
11.	Subtract line 10 from line 9. This amount is taxed at 0%		300.
12.	Enter the smaller of line 1 or line 6		300.
13.	Enter the amount from line 11		300.
14.	Subtract line 13 from line 12		0.
15.	Enter: $425,800 if single, $239,500 if married filing separately, $479,000 if married filing jointly or qualifying widow(er), $452,400 if head of household.		479,000.
16.	Enter the smaller of line 1 or line 15		32,173.
17.	Add lines 7 and 11		32,173.
18.	Subtract line 17 from line 16. If zero or less, enter zero.		0.
19.	Enter the smaller of line 14 or line 18		0.
20.	Multiply line 19 by 15% (.15)		0.
21.	Add lines 11 and 19		300.
22.	Subtract line 21 from line 12		0.
23.	Multiply line 22 by 20% (.20)		0.
24.	Figure the tax on the amount on line 7. (Use the Tax Table or Tax Computation Worksheet)		3,444.
25.	Add lines 20, 23, and 24		3,444.
26.	Figure the tax on the amount on line 1. (Use the Tax Table or Tax Computation Worksheet)		3,480.
27.	Tax on all taxable income (including capital gain distributions). Enter the smaller of line 25 or line 26 here and on Form 1040, line 11		3,444.

Federal Income Tax Withheld

	4,892.
Total	4,892.

Form **1040** Department of the Treasury — Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only — Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
Ray Gomez		469-21-5523

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Maria Gomez		444-65-9912

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)

☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
1610 Quince Avenue

Presidential Election Campaign (see inst.) ☐ **You** ☐ **Spouse**

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.
McAllen, TX 78701

If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions):

(1) First name	Last name	**(2)** Social security number	**(3)** Relationship to you	**(4)** ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Salesperson	
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.)
		City Clerk	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if:
	Self-Prepared			☐ 3rd Party Designee

Firm's name ► Phone no. ☐ Self-employed

Firm's address ►

BAA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** (2018)

FDIA0112L 10/02/18

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	62,600.
2a	Tax-exempt interest	2a	b Taxable interest	2b	650.
3a	Qualified dividends	3a	b Ordinary dividends	3b	
4a	IRAs, pensions, and annuities	4a	b Taxable amount	4b	
5a	Social security benefits	5a	b Taxable amount	5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22		4,000.	6	67,250.
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	61,850.
8	**Standard deduction or itemized deductions** (from Schedule A)			8	24,000.
9	Qualified business income deduction (see instructions)			9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter –0–			10	37,850.
11	**a** Tax (see inst.) 4,164. (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐ ______) **b Add** any amount from Schedule 2 and check here ► ☐			11	4,164.
12	**a** Child tax credit/credit for other dependents ______ **b Add** any amount from Schedule 3 and check here ► ☐			12	
13	Subtract line 12 from line 11. If zero or less, enter -0-			13	4,164.
14	Other taxes. Attach Schedule 4			14	
15	Total tax. Add lines 13 and 14			15	4,164.
16	Federal income tax withheld from Forms W-2 and 1099			16	5,970.
17	Refundable credits: **a** EIC (see inst.) ______ **b** Sch. 8812 ______ **c** Form 8863 ______ Add any amount from Schedule 5 ______			17	
18	Add lines 16 and 17. These are your total payments			18	5,970.

Standard Deduction for –

- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

Refund

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	1,806.
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ► ☐	20a	1,806.
► b	Routing number XXXXXXXXXX ► **c** Type: ☐ Checking ☐ Savings		
► d	Account number XXXXXXXXXXXXXXXXXXXXXXXXX		
21	Amount of line 19 you want **applied to your 2019 estimated tax** ► 21		

Direct deposit? See instructions.

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ►	22	
23	Estimated tax penalty (see instructions) 23		

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▸ **Attach to Form 1040.**
▸ **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074
2018
Attachment Sequence No. **01**

Name(s) shown on Form 1040: Ray and Maria Gomez
Your social security number: 469-21-5523

Additional Income

1–9b	Reserved	1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▸ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Reserved	15b	
16a	Reserved	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Reserved	20b	
21	Other income. List type and amount Gambling Winnings	21	4,000.
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	4,000.

Adjustments to Income

23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26			
27	Deductible part of self-employment tax. Attach Schedule SE	27			
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid **b** Recipient's SSN ▸ 566-74-8765	31a	5,400.		
32	IRA deduction	32			
33	Student loan interest deduction	33			
34	Reserved	34			
35	Reserved	35			
36	Add lines 23 through 35			36	5,400.

BAA For Paperwork Reduction Act Notice, see your tax return instructions. **Schedule 1 (Form 1040) 2018**

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	Your social security number
Albert T.	Gaytor	266 51 1966

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	Spouse's social security number
Allison A.	Gaytor	266 34 1967

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. 12340 Cocoshell Road — Apt. no.
Presidential Election Campaign (see inst.) ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. Coral Gables, FL 33134
If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
Crocker	Gaytor	261 55 1212	Son	☐	☒
				☐	☐
				☐	☐
				☐	☐

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.

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

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Boat Captain	
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.)
		Homemaker	

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Form 1040 (2018) Page **2**

	1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	66,850	
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	2a	Tax-exempt interest	2a	745	**b** Taxable interest 2b	1,006	
	3a	Qualified dividends	3a	1,025	**b** Ordinary dividends 3b	1,185	
	4a	IRAs, pensions, and annuities	4a		**b** Taxable amount 4b		
	5a	Social security benefits	5a		**b** Taxable amount 5b		
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	10,000		6	79,041	
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	67,541	
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)			8	24,000	
	9	Qualified business income deduction (see instructions)			9		
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10	43,541	
	11	**a** Tax (see inst) 4,722 (check if any from: **1** ☐ Form(s) 8814 **2** ☐ Form 4972 **3** ☐ ______) **b Add** any amount from Schedule 2 and check here ▶ ☐			11	4,722	
	12	**a** Child tax credit/credit for other dependents 500 **b Add** any amount from Schedule 3 and check here ▶ ☐			12	500	
	13	Subtract line 12 from line 11. If zero or less, enter -0-			13	4,222	
	14	Other taxes. Attach Schedule 4			14		
	15	Total tax. Add lines 13 and 14			15	4,222	
	16	Federal income tax withheld from Forms W-2 and 1099			16	7,530	(a)
	17	Refundable credits: **a** EIC (see inst.) ______ **b** Sch 8812 ______ **c** Form 8863 ______ **Add** any amount from Schedule 5 ______			17		
	18	Add lines 16 and 17. These are your total payments			18	7,530	
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**			19	3,308	
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			20a	3,308	
Direct deposit? See instructions. ▶	b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings					
▶	d	Account number					
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶	21				
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶			22		
	23	Estimated tax penalty (see instructions) ▶	23				

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

(a) $7,530 = $5,780 (W-2) + $1,600 (W-2G) + $150 (1099-G)

SCHEDULE 1
(Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. 01

Name(s) shown on Form 1040: Albert T. and Allison Gaytor
Your social security number: 266-51-1966

Additional Income

1–9b	Reserved	1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Reserved	15b	
16a	Reserved	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	4,000
20a	Reserved	20b	
21	Other income. List type and amount ▶ Gambling winnings	21	6,000
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	10,000

Adjustments to Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶ 667 34 9224	31a	11,500
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Reserved	34	
35	Reserved	35	
36	Add lines 23 through 35	36	11,500

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Qualified Dividends and Capital Gain Tax Worksheet—Line 11a

Keep for Your Records

Before you begin:
- √ See the earlier instructions for line 11a to see if you can use this worksheet to figure your tax.
- √ Before completing this worksheet, complete Form 1040 through line 10.
- √ If you don't have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Schedule 1.

1.	Enter the amount from Form 1040, line 10. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the Foreign Earned Income Tax Worksheet . . . . **1.**		43,541	
2.	Enter the amount from Form 1040, line 3a* . . . . **2.**	1,025		
3.	Are you filing Schedule D?* ☐ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or 16 is blank or a loss, enter -0-. ☒ **No.** Enter the amount from Schedule 1, line 13. } **3.**	0		
4.	Add lines 2 and 3 . . . . **4.**	1,025		
5.	If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0- . . . . **5.**	0		
6.	Subtract line 5 from line 4. If zero or less, enter -0- . . . . **6.**		1,025	
7.	Subtract line 6 from line 1. If zero or less, enter -0- . . . . **7.**		42,516	
8.	Enter: $38,600 if single or married filing separately, $77,200 if married filing jointly or qualifying widow(er), $51,700 if head of household. } . . . . **8.**		77,200	
9.	Enter the smaller of line 1 or line 8 . . . . **9.**		43,541	
10.	Enter the smaller of line 7 or line 9 . . . . **10.**		42,516	
11.	Subtract line 10 from line 9. This amount is taxed at 0% . . . . **11.**		1,025	
12.	Enter the smaller of line 1 or line 6 . . . . **12.**		1,025	
13.	Enter the amount from line 11 . . . . **13.**		1,025	
14.	Subtract line 13 from line 12 . . . . **14.**		0	
15.	Enter: $425,800 if single, $239,500 if married filing separately, $479,000 if married filing jointly or qualifying widow(er), $452,400 if head of household. } . . . . **15.**		479,000	
16.	Enter the smaller of line 1 or line 15 . . . . **16.**		43,541	
17.	Add lines 7 and 11 . . . . **17.**		43,541	
18.	Subtract line 17 from line 16. If zero or less, enter -0- . . . . **18.**		0	
19.	Enter the smaller of line 14 or line 18 . . . . **19.**		0	
20.	Multiply line 19 by 15% (0.15) . . . . **20.**			0
21.	Add lines 11 and 19 . . . . **21.**		1,025	
22.	Subtract line 21 from line 12 . . . . **22.**		0	
23.	Multiply line 22 by 20% (0.20) . . . . **23.**			0
24.	Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet . . . . **24.**			4,722
25.	Add lines 20, 23, and 24 . . . . **25.**			4,722
26.	Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet . . . . **26.**			4,842
27.	**Tax on all taxable income.** Enter the **smaller** of line 25 or 26. Also include this amount on the entry space on Form 1040, line 11a. If you are filing Form 2555 or 2555-EZ, don't enter this amount on the entry space on Form 1040, line 11a. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet . . . . **27.**			4,722

* *If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet before completing this line.*

Form **1040** Department of the Treasury — Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only — Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	**Your social security number**
Albert T Gaytor		266-51-1966

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Allison A Gaytor		266-34-1967

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)

☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	**Presidential Election Campaign** (see inst.) ☐ **You** ☐ **Spouse**
12340 Cocoshell Road		

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.	If more than four dependents, see inst. and ✓ here ► ☐
Coral Gables, FL 33134	

Dependents (see instructions): **(1)** First name Last name	**(2)** Social security number	**(3)** Relationship to you	**(4)** ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
Crocker Gaytor	261-55-1212	Son	☐	☒
			☐	☐
			☐	☐
			☐	☐

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Boat Captain	
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.)

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if:
	Self-Prepared			☐ 3rd Party Designee
Firm's name ►		Phone no.		☐ Self-employed
Firm's address ►				

BAA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** (2018)

FDIA0112L 10/02/18

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	66,850.
2a	Tax-exempt interest	2a	745.	b Taxable interest 2b	1,006.
3a	Qualified dividends	3a	1,025.	b Ordinary dividends 3b	1,185.
4a	IRAs, pensions, and annuities	4a		b Taxable amount 4b	
5a	Social security benefits	5a		b Taxable amount 5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22		10,000.	6	79,041.
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	67,541.
8	**Standard deduction or itemized deductions** (from Schedule A)			8	24,000.
9	Qualified business income deduction (see instructions)			9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter –0–			10	43,541.
11	a Tax (see inst.) 4,722. (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐) b **Add** any amount from Schedule 2 and check here ► ☐			11	4,722.
12	a Child tax credit/credit for other dependents 500. b **Add** any amount from Schedule 3 and check here ► ☐			12	500.
13	Subtract line 12 from line 11. If zero or less, enter -0-			13	4,222.
14	Other taxes. Attach Schedule 4			14	
15	Total tax. Add lines 13 and 14			15	4,222.
16	Federal income tax withheld from Forms W-2 and 1099			16	7,530.
17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863 Add any amount from Schedule 5			17	
18	Add lines 16 and 17. These are your total payments			18	7,530.

Standard Deduction for –

- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

Refund

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**		19	3,308.
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ► ☐		20a	3,308.
► b	Routing number XXXXXXXXXX ► c Type: ☐ Checking ☐ Savings			
► d	Account number XXXXXXXXXXXXXXXXXXXXXXXX			
21	Amount of line 19 you want **applied to your 2019 estimated tax** ►	21		

Direct deposit? See instructions.

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ►		22	
23	Estimated tax penalty (see instructions)	23		

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▸ **Attach to Form 1040.**
▸ **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074
2018
Attachment Sequence No. **01**

Name(s) shown on Form 1040: Albert T and Allison A Gaytor

Your social security number: 266-51-1966

Additional Income	1–9b	Reserved			1–9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes			10	
	11	Alimony received			11	
	12	Business income or (loss). Attach Schedule C or C-EZ			12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▸ ☐			13	
	14	Other gains or (losses). Attach Form 4797			14	
	15a	Reserved			15b	
	16a	Reserved			16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	
	18	Farm income or (loss). Attach Schedule F			18	
	19	Unemployment compensation			19	4,000.
	20a	Reserved			20b	
	21	Other income. List type and amount Gambling Winnings			21	6,000.
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23			22	10,000.
Adjustments to Income	23	Educator expenses	23			
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24			
	25	Health savings account deduction. Attach Form 8889	25			
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26			
	27	Deductible part of self-employment tax. Attach Schedule SE	27			
	28	Self-employed SEP, SIMPLE, and qualified plans	28			
	29	Self-employed health insurance deduction	29			
	30	Penalty on early withdrawal of savings	30			
	31a	Alimony paid **b** Recipient's SSN ▸ 667-34-9224	31a	11,500.		
	32	IRA deduction	32			
	33	Student loan interest deduction	33			
	34	Reserved	34			
	35	Reserved	35			
	36	Add lines 23 through 35			36	11,500.

Albert T and Allison A Gaytor 266-51-1966

Wage Schedule

Taxpayer - Employer	Wages	Federal W/H	FICA	Medi-care	State W/H	Local W/H
	66,850.	5,780.	4,145.	969.		
Grand Total	66,850.	5,780.	4,145.	969.	0.	0.

Form 1040, Line 2b
Interest Income

Florida Electric Company	670.
Vizcaya National Bank	336.
Total	1,006.

Form 1040, Line 2a
Tax-Exempt Interest

Payer	In-state municipal bonds	Private activity bonds	Total municipal bonds
Miami-Dade County Airport Authority			745.
	0.	0.	745.

Form 1040, Line 3b
Dividend Income

Everglades Bank Corporation	1,025.
Grapefruit Mutual Fund	160.
Total	1,185.

Form 1040, Line 3a
Qualified Dividends

Everglades Bank Corporation	1,025.
Total	1,025.

Qualified Dividends and Capital Gain Tax Worksheet (Form 1040, Line 11)

1.	Enter the amount from Form 1040, line 10		43,541.
2.	Enter the amount from Form 1040, line 3a	1,025.	
3.	Are you filing Schedule D? [ ] Yes. Enter the smaller of line 15 or 16 of Schedule D, but do not enter less than zero [X] No. Enter the amount from Schedule 1, line 13	0.	
4.	Add lines 2 and 3	1,025.	
5.	If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise enter zero.	0.	
6.	Subtract line 5 from line 4. If zero or less, enter zero.		1,025.
7.	Subtract line 6 from line 1. If zero or less, enter zero.		42,516.
8.	Enter: $38,600 if single or married filing separately, $77,200 if married filing jointly or qualifying widow(er), $51,700 if head of household		77,200.
9.	Enter the smaller of line 1 or line 8		43,541.
10.	Enter the smaller of line 7 or line 9		42,516.
11.	Subtract line 10 from line 9. This amount is taxed at 0%		1,025.
12.	Enter the smaller of line 1 or line 6		1,025.
13.	Enter the amount from line 11		1,025.
14.	Subtract line 13 from line 12		0.
15.	Enter: $425,800 if single, $239,500 if married filing separately, $479,000 if married filing jointly or qualifying widow(er), $452,400 if head of household.		479,000.
16.	Enter the smaller of line 1 or line 15		43,541.
17.	Add lines 7 and 11		43,541.
18.	Subtract line 17 from line 16. If zero or less, enter zero.		0.
19.	Enter the smaller of line 14 or line 18		0.
20.	Multiply line 19 by 15% (.15)		0.
21.	Add lines 11 and 19		1,025.
22.	Subtract line 21 from line 12		0.
23.	Multiply line 22 by 20% (.20)		0.
24.	Figure the tax on the amount on line 7. (Use the Tax Table or Tax Computation Worksheet)		4,722.
25.	Add lines 20, 23, and 24		4,722.
26.	Figure the tax on the amount on line 1. (Use the Tax Table or Tax Computation Worksheet)		4,842.
27.	Tax on all taxable income (including capital gain distributions). Enter the smaller of line 25 or line 26 here and on Form 1040, line 11		4,722.

Child Tax Credit and Credit for Other Dependents Worksheet (Form 1040, Line 12a)

1.	Number of qualifying children with required SSN from Form 1040, Dependents: 0 x $2,000	0.	
2.	Number of other dependents, including qualifying children without the required SSN from Form 1040, Dependents: 1 x $500	500.	
3.	Add lines 1 and 2		500.
4.	Enter the amount from Form 1040, line 7.	67,541.	
5.	Enter $400,000 if MFJ ($200,000 for all others)	400,000.	
6.	Is line 4 more than the amount on line 5? NO - Leave line 6 blank. Enter -0- on line 7. YES - Subtract line 5 from line 4. If the result is not a multiple of $1,000, increase it to the next multiple of $1,000.		
7.	Multiply the amount on line 6 by 5% (.05). Enter the result.		0.
8.	Is the amount on line 3 more than the amount on line 7? NO - Stop. You can't take the child tax credit on Form 1040, line 12a. You also cannot take the additional child tax credit on Form 1040, line 17b. YES - Subtract line 7 from line 3. Enter the result.		500.
9.	Enter the amount from Form 1040, line 11.		4,722.
10.	Add the amounts from: Schedule 3, Line 48 0. Schedule 3, Line 49 0. Schedule 3, Line 50 0. Schedule 3, Line 51 0. Form 5695, Line 30 0. Form 8910, Line 15 0. Form 8936, Line 23 0. Schedule R, Line 22 0. Enter the total.	0.	
11.	Are the amounts on line 9 and 10 the same? YES - Stop. You can't take the credit because there is no tax to reduce. NO - Subtract line 10 from line 9.		4,722.
12.	Is the amount on line 8 more than the amount on line 11? YES - Enter the amount from line 11. NO - Enter the amount from line 8. This is your Child Tax Credit and credit for other dependents. Enter on Form 1040, line 12a.		500.

Federal Income Tax Withheld

	5,780.
	1,600.
	150.
Total	7,530.

Form **1040** Department of the Treasury — Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only — Do not write or staple in this space.

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	**Your social security number**
Carl Conch		835-21-5423

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Mary Duval		633-65-7912

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)

☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
1234 Mallory Square #64

Presidential Election Campaign (see inst.) ☐ **You** ☐ **Spouse**

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.
Key West, FL 33040

If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions):

(1) First name	Last name	**(2)** Social security number	**(3)** Relationship to you	**(4)** ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

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	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Pie Maker	
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.)

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if:
	Self-Prepared			☐ 3rd Party Designee

Firm's name ► Phone no. ☐ Self-employed
Firm's address ►

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	67,700.
2a	Tax-exempt interest 2a; **b** Taxable interest	2b	355.
3a	Qualified dividends 3a; **b** Ordinary dividends	3b	210.
4a	IRAs, pensions, and annuities 4a; **b** Taxable amount	4b	
5a	Social security benefits 5a; **b** Taxable amount	5b	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 3,550.	6	71,815.
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	71,815.
8	**Standard deduction or itemized deductions** (from Schedule A)	8	24,000.
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter –0–	10	47,815.
11	**a** Tax (see inst.) 5,358. (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐) **b Add** any amount from Schedule 2 and check here ► ☐	11	5,358.
12	**a** Child tax credit/credit for other dependents **b Add** any amount from Schedule 3 and check here ► ☐	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	5,358.
14	Other taxes. Attach Schedule 4	14	
15	Total tax. Add lines 13 and 14	15	5,358.
16	Federal income tax withheld from Forms W-2 and 1099	16	6,860.
17	Refundable credits: **a** EIC (see inst.) **b** Sch. 8812 **c** Form 8863 Add any amount from Schedule 5	17	
18	Add lines 16 and 17. These are your total payments	18	6,860.

Standard Deduction for –
- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

Refund

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19	1,502.
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ► ☐	20a	1,502.
► b	Routing number XXXXXXXXX ► **c** Type: ☐ Checking ☐ Savings		
► d	Account number XXXXXXXXXXXXXXXXXXXXXXX		
21	Amount of line 19 you want **applied to your 2019 estimated tax** ► 21		

Direct deposit? See instructions.

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ►	22	
23	Estimated tax penalty (see instructions) 23		

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. **01**

Name(s) shown on Form 1040	Your social security number
Carl Conch and Mary Duval	835-21-5423

Additional Income

1–9b	Reserved	1–9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	Reserved	15b	
16a	Reserved	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	2,800.
20a	Reserved	20b	
21	Other income. List type and amount Raffle prize	21	750.
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	3,550.

Adjustments to Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Reserved	34	
35	Reserved	35	
36	Add lines 23 through 35	36	0.

BAA For Paperwork Reduction Act Notice, see your tax return instructions. **Schedule 1 (Form 1040) 2018**

2018 ProConnect Tax Online Lab Instructions, Whittenburg, Gill

Ch. 2 Hair

Sign in to your Intuit account and select *New Return* at the upper right.

Select *Individual* and fill out the information for Ken. Click on *Save and Continue* at the lower right. On the next screen, click on *Save and Continue* at the bottom right.

From the menu at the top, select *Profile.* In the *Actions* columns, click on the Delete icon for the Missouri return, and click *OK* in the window that opens.

From the menu at the top, select *Input Return*. From the menu at the left, select *General; Client Information; Filing Status*. For *Filing Status*, enter 2 for *married filing joint*.

From the menu at the left, select *General; Client Information; Taxpayer Information*. Enter Ken's occupation.

From the menu at the left, select *General; Client Information; Spouse Information*. Enter Bev's information.

From the menu at the left, select *General; Client Information; Miscellaneous Info,* and for *Prepared By,* enter 3 for *Self-Prepared*.

From the menu at the left, select *General; Misc. Info./Direct Deposit; Miscellaneous;* and under *Designee/IRS Discussion,* for *Allow discussion,* enter 3 for *blank*.

From the menu at the left, select *Credits; Health Coverage, Exemptions and Miscellaneous*; *Minimum Essential Coverage Not Indicated Elsewhere* and enter 1 for *entire household covered for all months*. This will show that the Hairs had coverage and do not have to pay the penalty tax for failing to carry health insurance.

From the menu at the left, select *Income; Wages, Salaries, Tips (W-2); Wages.* For *Spouse W-2,* check the *Yes* box. Enter the amounts for Bev's wages and federal income tax withheld. There's no need to enter her state income tax withheld, because we're not preparing a state return, and the Hairs are not itemizing.

Select the tab with the + sign at the top, for a new Form W-2. From the Menu at the left, select *Wages*. Enter the amounts for Ken's wages and federal income tax withheld.

For the interest income, from the menu at the left, select *Income; Interest Income (1099-INT, 1099-OID); Interest Income.* For the taxable interest, enter the name of the payer and the amount. For the tax-exempt interest, enter the name of the payer and then click on *Details.* From the menu at the left, select Form *1099-INT* and under *Tax-exempt interest*, enter the amount for *Total municipal bonds*.

For the dividend income, from the menu at the left, select *Income (1099-DIV); Dividend Income*. Enter the name of the payer, and enter the amount under *Dividend Income/Total Ordinary Dividends* and also under *Dividend Income/Qualified Dividends*.

To enter Bev's unemployment compensation, from the menu at the left, select *Income; Tax Refund, Unempl. Comp./1099-G; Federal.* Under *Unemployment Compensation,* enter the amount as *Total received (1).*

From the menu at the top, select *File Return*. From the menu at the left, under *Print*, select *Partial Print.* Check the boxes for *1040, Sch 1* and *Worksheets.* Click on the blue button for *Generate PDF* and then on the blue button for *View Return PDF.* Review the return and then download it – remember where you save it. Close the PDF.

Ch. 2 Gomez

Sign in to your Intuit account and select *New Return* at the upper right.

Select *Individual* and fill out the information for Ray. Click on *Save and Continue* at the lower right. On the next screen, click on *Save and Continue* at the bottom right.

From the menu at the top, select *Input Return*. From the menu at the left, select *General; Client Information; Filing Status*. For *Filing Status*, enter 2 for *married filing joint*.

From the menu at the left, select *General; Client Information; Taxpayer Information*. Enter Ray's occupation.

From the menu at the left, select *General; Client Information; Spouse Information*. Enter Maria's information.

From the menu at the left, select *General; Client Information; Miscellaneous Info,* and for *Prepared By,* enter 3 for *Self-Prepared.*

From the menu at the left, select *General; Misc. Info./Direct Deposit; Miscellaneous;* and under *Designee/IRS Discussion,* for *Allow discussion,* enter 3 for *blank*.

From the menu at the left, select *Credits; Health Coverage, Exemptions and Miscellaneous*; *Minimum Essential Coverage Not Indicated Elsewhere* and enter 1 for *entire household covered for all months*. This will show that the Gomezes had coverage and do not have to pay the penalty tax for failing to carry health insurance.

From the menu at the left, select *Income; Wages, Salaries, Tips (W-2); Wages.* Enter the amounts for Ray's wages and federal income tax withheld.

Select the tab with the + sign at the top, for a new Form W-2. From the Menu at the left, select *Wages*. For *Spouse W-2,* check the *Yes* box. Enter the amounts for Maria's wages and federal income tax withheld.

For the interest income, from the menu at the left, select *Income; Interest Income (1099-INT, 1099-OID); Interest Income.* For the taxable interest, enter the name of the payer and the amount.

To enter the alimony paid, from the menu at the left, select *Deductions; Adjustments to Income; Alimony Paid.* Enter the amount for the year for *Alimony Paid* in the *Taxpayer* column, click on the button to expand, and enter the *Recipient's SSN*.

To enter Maria's lottery winnings, from the menu at the left, select *Income; Gambling Winnings/Losses (W-2G) (Losses/Misc Winnings); Gambling Losses and Non W-2G Winnings.* Enter the amount for *Winnings not reported on Form W-2G* .

From the menu at the top, select *File Return*. From the menu at the left, under *Print*, select *Partial Print.* Check the boxes for *1040* and *Sch 1.* Click on the blue button for *Generate PDF* and then on the blue button for *View Return PDF.* Review the return and then download it – remember where you save it. Close the PDF.

Ch. 2 Conch and Duval

Sign in to your Intuit account and select *New Return* at the upper right.

Select *Individual* and fill out the information for Carl. There is a spot for the Apartment/Suite #. Click on *Save and Continue* at the lower right. On the next screen, click on *Save and Continue* at the bottom right.

From the menu at the top, select *Profile.* In the *Actions* columns, click on the Delete icon for the Florida return, and click *OK* in the window that opens.

From the menu at the top, select *Input Return*. From the menu at the left, select *General; Client Information; Filing Status*. For *Filing Status*, enter 2 for *married filing joint*.

From the menu at the left, select *General; Client Information; Taxpayer Information*. Enter Carl's occupation.

From the menu at the left, select *General; Client Information; Spouse Information*. Enter Mary's information.

From the menu at the left, select *General; Client Information; Miscellaneous Info,* and for *Prepared By,* enter 3 for *Self-Prepared.*

From the menu at the left, select *General; Misc. Info./Direct Deposit; Miscellaneous;* and under *Designee/IRS Discussion,* for *Allow discussion,* enter 3 for *blank*.

From the menu at the left, select *Credits; Health Coverage, Exemptions and Miscellaneous*; *Minimum Essential Coverage Not Indicated Elsewhere* and enter 1 for *entire household covered* *for all months*. This will show that Carl and Mary had coverage and do not have to pay the penalty tax for failing to carry health insurance.

From the menu at the left, select *Income; Wages, Salaries, Tips (W-2); Wages.* Enter the amounts for Carl's wages and federal income tax withheld.

For the interest income, from the menu at the left, select *Income; Interest Income (1099-INT, 1099-OID); Interest Income.* For the taxable interest, enter the name of the payer and the amount.

For the dividend income, from the menu at the left, select *Income (1099-DIV); Dividend Income*. Enter the name of the payer, and enter the amount under *Dividend Income/Total Ordinary Dividends.*

To enter Mary's unemployment compensation, from the menu at the left, select *Income; Tax Refund, Unempl. Comp./1099-G; General Information.* Enter 1 for *spouse.* Scroll down to *Federal,* and under *Unemployment Compensation,* enter the amount as *Total received (1).* Scroll down and enter the *Federal income tax withheld (4).*

To enter Mary's raffle prize, from the menu at the left, select *Income; Gambling Winnings/Losses (W-2G) (Losses/Misc Winnings); Gambling Losses and Non W-2G Winnings.* Enter the amount for *Winnings not reported on Form W-2G* .

From the menu at the top, select *File Return*. From the menu at the left, under *Print*, select *Partial Print.* Check the boxes for *1040* and *Sch 1.* Click on the blue button for *Generate PDF* and then on the blue button for *View Return PDF.* Review the return and then download it – remember where you save it. Close the PDF.

Ch. 2 Gaytor

This return is a continuation of the Gaytor return that you prepared in Chapter One.

Sign in to your Intuit account and from the list of *Return Names*, select the name of your Chapter One Gaytor return. At the upper right, select *Copy return* from the *Return Actions* drop-down list. To access this copy, at the left, select *Tax Returns* and from the list of *Return Names*, select the copy. At the upper right, select *Rename return* from the *Return Actions* drop-down list and for *Tax Return Name* enter a name that you will recognize as the Chapter Two Gaytor return. Click on *Rename Return*.

There's no need to add any information from Albert's Form W-2.

For the interest income, from the menu at the left, select *Income; Interest Income (1099-INT, 1099-OID); Interest Income.* For the taxable interest, enter the name of the payer and the amount. For the tax-exempt interest, enter the name of the payer and then click on *Details.* From the menu at the left, select Form *1099-INT* and under *Tax-exempt interest*, enter the amount for *Total municipal bonds*.

For the dividend income, from the menu at the left, select *Income (1099-DIV); Dividend Income*. Enter the names of the payer, and enter the amounts under *Dividend Income/Total Ordinary Dividends.* If the dividends are qualified, also enter the amounts under *Dividend Income/Qualified Dividends*.

To enter Albert's gambling winnings, from the menu at the left, select *Income; Gambling Winnings/Losses (W-2G).* Enter the amounts for *Gross Winnings* and *Tax Withheld\Federal Withholding.*

To enter the alimony paid, from the menu at the left, select *Deductions; Adjustments to Income; Alimony Paid.* Enter the amount for the year for *Alimony Paid* in the *Taxpayer* column, click on the button to expand, and enter the *Recipient's SSN*.

To enter Allison's unemployment compensation, from the menu at the left, select *Income; Tax Refund, Unempl. Comp./1099-G; General Information.* Enter 1 for *spouse.* Scroll down to *Federal,* and under *Unemployment Compensation,* enter the amount as *Total received (1).* Scroll down and enter the *Federal income tax withheld (4).*

From the menu at the top, select *File Return*. From the menu at the left, under *Print*, select *Partial Print.* Check the boxes for *1040, Sch 1* and *Worksheets.* Click on the blue button for *Generate PDF* and then on the blue button for *View Return PDF.* Review the return and then download it – remember where you save it. Close the PDF.

Chapter Two
Gross Income and Exclusions
2019

Learning Objective 2.1 The Nature of Gross Income

Gross income is the initial point of tax computation and is composed of the following items:

1. Compensation for services, including fees, commissions, fringe benefits, and similar items
2. Gross income derived from business
3. Gains derived from dealings in property
4. Interest
5. Rents
6. Royalties
7. Dividends
8. Alimony and separate maintenance payments
9. Annuities
10. Income from life insurance and endowment contracts
11. Pensions
12. Income from discharge of indebtedness
13. Distributive share of partnership gross income
14. Income in respect of a decedent
15. Income from an interest in an estate or trust

The general rule is that "*all income from whatever source derived*" must be included in gross income unless specifically excluded.

- Noncash items should be reported at a fair market value.
- Specific exclusions canbe found in Table 2.2.

Learning Objective 2.2 Salaries & Wages Income

- Wages are primary way of earning income in U.S.
- Reported on Form W-2, and then employee reporting Box 1 on Line 1 of Form 1040
- Figure 2.1 illustrates W-2

Learning Objective 2.3 Accident & Health Insurance

Taxpayers may exclude from income the entire amount received from accident or health insurance plans for payment of medical care.

- Taxpayers may also exclude any premiums paid by a taxpayer's employer from income.
- If the employer pays premiums on behalf of the employee for health, accident, or long-term care insurance, the employer may deduct them.

Learning Objective 2.4 Meals and Lodging

Meals and lodging provided by employers to employees for the convenience of the employer are generally not considered part of compensation and *so are not included in employee's taxable income.*

- Taxpayers may exclude from income the value of lodging provided by an employer if the lodging is located on the business premises and must be accepted as a requirement of employment.
- Meals provided by employer for employee are excludable, but employer, under TCJA, may only deduct 50% of cost of providing meals

Learning Objective 2.5 Employee Fringe Benefits

All fringe benefits must be included in an employee's gross income unless specifically excluded by law as follows.

Flexible Spending Accounts

Employers may form plans which allow employees to set aside money from their salary before it is taxed to pay for one or more expenses.

- These expenses, in 2018, include
  - Dependent care accounts (maximum of $5,000)
  - Medical flexible spending accounts (up to $2,650 per year)
  - Public transportation and parking at work (up to $260/month).

Group Term Life-Insurance

Employers may pay for up to $50,000 of group term life insurance for employees.

Education Assistance Programs

Employer may provide up to $5,250 of excludable tuition assistance.

- Requires existence of a written plan.

No-Additional-Cost Services

Employees may receive tax-free services from their employer, if it is in major line of business in which employed.

- For example - an airline employee's free standby airplane ticket (employee is flying at no additional cost to the employer).

Qualified Employee Discounts

Employees may receive tax-free discounts from their employer

- On services, limited to 20% of typical customer price
- On merchandise, limited to mark up on product

Working Condition Fringe Benefits

Employees may exclude from income any property or services provided by the employer that would be excluded from income anyway.

- For example: use of company car for business or subscription to an appropriate professional journal (for example, a tax journal for a CPA firm).

De Minimis Fringe Benefits

Some benefits are so minimal that accounting for them is impractical.

- For example: occasional use of office equipment for personal use, Christmas turkeys, picnics, etc.

Tuition Reduction

Employees of educational institutions can exclude the value of a tuition reduction from their income if it was for undergraduate work and is available to all employees.

- Exclusion applies to employees, spouses, and dependents if a tuition reduction plan exists for them.
- Graduate students can only exclude tuition reductions if they work at the same school where they are teaching or doing research.

Athletic Facilities

Employees may exclude from gross income the value of the use of an athletic facility located onsite

Retirement Planning Fringe Benefit

Qualified retirement planning services are any retirement planning services provided to an employee and his/her spouse by an employer maintaining a "qualified employer plan."

- The exclusion *does not apply* to services that may be related to tax preparation, accounting, legal or brokerage services.

Learning Objective 2.6 Prizes and Awards

Prizes and awards are taxable income to the recipient.

- Other awards are also generally taxable, even if they are awards given for accomplishments and without solicitation by the taxpayer.
- Certain employee achievement awards made in recognition of length of service or safety achievement can be excluded from income.
    - As a rule, the maximum excludable amount is $400
    - But if the award is given through a "qualified plan" the maximum exclusion increases to $1,600.

Learning Objective 2.7 Annuities

- An annuity is an investment that pays periodic payments to the purchaser for the remainder of his/her life.
- Standard mortality tables, based on the current age of the annuitant, are used to calculate
- Each annuity payment received contains an element of taxable income and an element of tax-free return of the original purchase price.
- To calculate the taxable portion of the payment, the tax law provides two methods
    - The Simplified Method or the general rule.

The Simplified Method

Taxpayers are generally required to use the simplified method to calculate the taxable amount of annuities started *after November 18, 1996.*

- *Note*: Non-qualified plan annuitants and some annuitants age 75 and over still have to use the general rule rather than the simplified method.
- To calculate the taxable amount, the IRS provides a Simplified Method Worksheet. The exclusion ratio is calculated at the start of the annuity and remains constant.

The General Rule

Prior to implementing the simplified method, the general rule ratio used to calculate the amount excluded for most annuities. The calculation is as follows:

$$\frac{\textbf{Investment in the Contract}}{\textbf{Annual Payment x Life Expectancy}} \textbf{ x Amount Received = Excluded Amount}$$

Employee Annuities

If an employer makes periodic payments to a retirement annuity on behalf of an employee and the payments are made to a qualified retirement plan, *the contributions by the employer are not taxable to the employee*.

- Because the contributions are not taxable when they are made, they are not considered part of the employee's investment in the contract when calculating the exclusion ratio.

Learning Objective 2.8 Life Insurance

Life insurance proceeds are excluded from gross income.

- To be excluded, proceeds must be paid to the beneficiary by reason of the death of the insured.
    - If the proceeds are taken over several years instead of in a lump sum, the insurance company pays interest on the unpaid proceeds. The interest is generally taxable income
- Early payouts of life insurance are excludable
- Payouts from viatical settlements can be excluded from gross income:
    - For terminally ill taxpayers and
    - For a chronically ill taxpayer to extent proceeds pay for long-term care.
        - These exclusions require certification by an M.D.

Learning Objective 2.9 Interest and Dividend Income

Interest and dividend income is part of gross income.

- If a taxpayer earns $1,500 or more in interest and dividends, must file a Schedule B
- Interest and dividends from cooperative banks, credit unions, domestic building and loan associations, domestic savings and loan associations, federal savings and loan associations and mutual savings banks are included.

Savings bonds come in three different forms:

- Series EE, Series HH and Series I.
    - Series EE bonds are issued at a discount.
    - Series HH bonds are bonds that have interest paid semi-annually.

- Series I bonds do not pay interest until maturity, but earnings are adjusted for inflation on a semi-annual basis.
- *Note:* Cash basis taxpayers report the increase in redemption value on a Series EE or Series I bonds

- Dividends are one type of distribution paid to a taxpayer by a corporation
- Types of dividends are:
  - Ordinary dividends, nontaxable distributions and capital gain distributions.
    - There are special lower tax rates for qualifying dividends.
    - *Note:* Dividends that do not qualify are taxed at ordinary rates.

Income Level	Qualifying dividends and long-term capital gains rates*
MFJ $0-$77,200	0%
$77,201-$479,000	15%
> $479,001	20%
SINGLE $0-$38,600	0%
$38,601-$425,800	15%
> $425,801	20%
HOH $0-$51,700	0%
$51,701-$452,400	15%
$452,401	20%
*An additional 3.8% Medicare surtax on Net Investment Income including qualifying dividends applies to high-income taxpayers. (LO 1.9)	

- Interest reported on Form 1099-INT (Box 1)
- States may not tax interest from U.S. government obligations (reported in Box 3)
- Tax-exempt interest reported in Box 8

- Dividends reported on Form 1099-DIV
  - Ordinary dividends (Box 1a); qualified dividends (Box 1a); capital gain

dividends (Box 2a)
    - Capital gains dividends are reported on Schedule D

Learning Objective 2.10 Municipal Bond Interest

- Interest income earned on state or local government bonds is exempt from federal tax.

Note: The interest exclusion encourages high-income taxpayers to lend money to state and local governments at lower interest rates.

After-tax return = Tax-free interest rate/(1.00 – tax rate)

Learning Objective 2.11 Gifts and Inheritances

The fair market value of gifts and inheritances may be excluded from taxable income

- But income received from property after the transfer is taxable.
- Gifts given in the business setting are considered taxable income
    - If gift recipient provides service in return for gift, presumed that gift is income for the service performed.

Learning Objective 2.12 Scholarships

Scholarship dollars awarded that are used to *pay room and board are taxable*

- Scholarship dollars spent for tuition, fees, books, and course-required supplies and equipment are *exempt*.
- Payments received by students for part-time employment including work-study are taxable as compensation.

Learning Objective 2.13 Alimony

Alimony payments are deductible by the individual making the payments and taxable income to the person receiving the payments.

- The term "alimony," for income tax purposes, includes separate *or periodic maintenance payments* made to a spouse or former spouse.
- Payments must meet certain requirements to be considered alimony.
    - Rules for divorces prior to 1985 were different than they are now so consult the tax rules for that time period if reference to those particular rules are needed.

To qualify as alimony, payments must:

…be in cash and be received by spouse.

…be made under a decree of divorce/separation or associated written agreement

…cease upon the death of the spouse

…not be designated as anything other than alimony in the written agreement

…not be made to members of the same household

…not be child support payments

Payments contingent on age or marital status of child are not alimony and therefore nondeductible.

- *Note: Alimony paid by high-income spouse to low-income spouse will result in tax savings to high-income spouse.*
- Payments contingent on age or marital status of child are not alimony.
    - May be an important factor in determining which spouse is entitled to claim the dependency exemption for the child.
- Child support payments must be up to date before any amounts paid may be treated as alimony.

Learning Objective 2.14 Educational Incentives

Qualified Tuition Programs (QTP) allow taxpayers to buy in-kind tuition credits for qualified higher education expenses or to contribute to an account

- Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for the enrollment or attendance at an eligible education intuition.
    - No income limit on the amount of contributions to the QTP
    - Contributions are *not* tax deductible.
    - The contributions are considered gifts and thus subject to gift tax rules.
- TCJA now includes tuition in connection with enrollment at elementary/secondary public, private, or religious schools
- Distributions from QTPs may be taken in the same year as education credit (Chapter 6), as long as amount distributed is not used to calculate the credit.

Educational savings accounts (ESAs) are established to pay for qualified higher ed expenses.

- The maximum annual contribution to these plans is $2,000.
- Contributions can be made until the designated beneficiary reaches 18.
- Can't contribute to an ESA in the same year a contribution is made to a QTP
- Contributions to ESAs are phased out {AGI of $95,000-$110,000 (S) and $190,000-$220,000 (MFJ)}
    - Contributions must be made by April 15 of following tax year.

Higher Education Expense Deduction – 'above-the-line' deduction for qualified tuition/related expenses

- No longer available, but this deduction has previously been extended a number of times
- Deduction is $4,000 for single/head of household with AGI below $65,000, and married filing jointly with AGI below $130,000.

Learning Objective 2.15 Unemployment Compensation

Unemployment compensation is fully taxable and must be included in the taxpayer's gross income.

Learning Objective 2.16 Social Security Benefits

- Many taxpayers may exclude all of their Social Security earnings from gross income. Middle and upper income Social Security recipients may have to include *up to 85%* of

their benefits in taxable income.
- The amount of benefits taxable is based on the taxpayer's MAGI (Modified Adjusted Gross Income).

Base Amounts Table

Base	Applies to
$32,000	Married filing jointly
$0	Married filing separately but did not live apart for the entire year
$25,000	All other taxpayers

Income Tax Fundamentals 2019

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CENGAGE

CHAPTER 2

GROSS INCOME & EXCLUSIONS

CENGAGE

LEARNING OBJECTIVES

- Understand and apply definition of gross income
- Describe salaries/wages income reporting
- Explain general tax treatment of health insurance
- Calculate taxable portion of annuities
- Identify exclusions from gross income such as life insurance proceeds, fringe benefits, scholarships, inheritances and gifts, meals and lodging, etc.
- Identify common employee fringe benefit income exclusion
- Determine municipal bond interest tax treatment
- Explain tax implications of educational savings vehicles
- Describe tax treatment of unemployment compensation
- Apply rules governing inclusion of Social Security payments as income
- Distinguish between different rules for married taxpayers residing in community property states (when filing separately)

DEFINING GROSS INCOME

- Tax code defines gross income as "All income from whatever source derived"
- This means all sources of income are included unless specifically excluded
  - See Table 2.1 on page 2-3 for inclusions
  - See Table 2.2 on page 2-3 for exclusions
  - Non-cash items included at fair market value
  - Barter transactions are includable

Note: IRS now requires that wages paid using virtual currency (such as bitcoin) requires the payor to issue a W-2

SALARIES & WAGES

- 83% of all tax returns filed include some amount for wage/salaries
- Employer sends W-2 to taxpayer
  - Taxpayer reports Box 1 "Wages, salaries, tips" on Form 1040
  - Box 2 reports amount of federal income tax withheld
  - Boxes 3-6 report wages subject to SS and Medicare taxes, as well as taxes
  - Box 8 reports allocated tips,
  - Box 12 reports variety of different forms of compensation
    - Code C – Taxable group life insurance
    - Codes D, E, G – Deferrals into retirement plans
    - Code V – Nonstatutory stock options
    - Code WW – Contributions to health savings account
    - Code DD – Cost of employer provided health care

ACCIDENT & HEALTH INSURANCE PREMIUMS

- Taxpayers may exclude from income the total amount received for
  - Payment of medical care
  - Payment for loss of a body member or function (called accidental death and dismemberment)
- Premiums paid by employer on employee’s behalf are excluded from income
  - For medical insurance
  - For accidental death and dismemberment insurance

MEALS AND LODGING

- Meals and lodging provided by employer are generally excluded from income (if following tests are met)

  (1) Meals provided by employer on premises during working hours *solely for the benefit of the employer* because employee must be available for emergency calls or is limited to short meal periods

  - With TCJA, only 50% of cost of these meals is deductible by employer

  (2) Lodging provided by employer on premises and must be accepted as a requirement for employment

EMPLOYEE FRINGE BENEFITS: FLEXIBLE SPENDING ACCOUNTS

- Employer-sponsored plan allowing employees to set aside pretax dollars for:
  - Dependent care flexible spending accounts (FSAs) up to $5,000/year (reported on Box 10 of W-2)
  - Health care FSAs up to $2,650/year
    - Health insurance co-pays, medical care
    - Dental work, optical care, prescription costs
  - Public transport/parking/commuter biking costs up to certain limits

Can result in significant tax savings for employee

- "Use-it-or-lose-it" provision
  - If amounts are left in FSAs after certain date, employee loses them
  - Can carryover up to $500 of unused amounts into a 3-month grace period into the next year

EMPLOYEE FRINGE BENEFITS

- May exclude certain fringe benefits from gross income, such as:
  - Employer-paid premiums for group term life insurance (face value up to $50,000)
  - Education assistance plans (up to $5,250/year)
  - Qualified employee discounts (with exceptions)
  - Working condition fringe benefits - excludable if you could deduct item on your own as an employee
  - De minimis fringe benefits (immaterial - not worth tracking)
  - Tuition reduction for undergraduate and available to all employees
  - Value of membership to onsite athletic facilities
  - Retirement planning services
  - Other excludable fringes (see Table 2.3 on page 2-12)

PRIZES/AWARDS

- Taxable amount equal to cash prize or fair market value of property

  Exception: Employee awards of tangible personal property (up to $400) received for recognition of length of service or safety achievement are excludable. Up to $1,600 may be excluded, if it is granted under a "qualified plan award."

- Game show and reality TV show winners should be aware that prizes/awards are taxable

PRIZE/AWARD EXAMPLE

Example

Josef, an employee of Vesuvius Statuaries LLC, receives a clock for 20 years of service valued at $1,500 and the award is not considered a "qualified plan award;" how much is excludable from Josef's gross income?

SOLUTION (1 of 5)

Example

Josef, an employee of Vesuvius Statuaries LLC, receives a clock for 20 years of service valued at $1,500 and the award is not considered a “qualified plan award;” how much is excludable from Josef’s gross income?

Solution

$400 is excluded and $1,100 would have to be included in Josef’s gross income calculation

ANNUITIES

- An annuity is an instrument that a taxpayer buys (usually at retirement) in return for periodic payments for the remainder of his/her life
- The taxable portion of these periodic payments is calculated based on

Mortality tables provided by IRS

and

The annuity purchase price

ANNUITIES – SIMPLIFIED METHOD

- Individuals generally required to use this method to calculate taxable amount from an annuity - if annuity payments commenced after 11/18/96
- Taxpayer must fill in simplified method worksheet provided by IRS
  - See pp. 2-14 through 2-15 for example of simplified method worksheet

ANNUITIES – THE GENERAL RULE

- Before Simplified Method, the General Rule was used for most annuity calculations
- Payments received are both taxable (income) and nontaxable (return of capital)
- Must calculate amount to exclude from income

1. First, calculate exclusion ratio

   Investment in Contract / (Annual payment × Life expectancy)

2. Secondly, find the amount to exclude
   Exclusion Ratio (from step 1) × *Annual Amount of Annuity Received*

ANNUITIES/PENSIONS EXAMPLE

Example

Din has saved $750,000 in his retirement account and uses it to purchase an annuity. His annuity equals $4,800/month and the IRS tables show he is expected to live 19 years. How much is excludable from tax each year of Din's retirement? Assume that Din is required to use the general rule.

SOLUTION (2 of 5)

Example

Din has saved $750,000 in his retirement account and uses it to purchase an annuity. His annuity pays $4,800/month and the IRS tables show he is expected to live 19 years. How much is excludable from tax each year of Din's retirement? Assume that Din is required to use the general rule.

Solution

$750,000/($4,800 × 12 months × 19 years) = .685

.685 = 68.5% of amount is excluded from tax

.685 × ($4,800 × 12 months) = *$39,456 annual exclusion*

EMPLOYEE ANNUITIES

- Employers may make periodic payments to retirement plans on behalf of their employees
- These payments are not taxable to employee in current year
- They are not considered part of investment when calculating exclusion ratio

LIFE INSURANCE PROCEEDS

- Life insurance proceeds are *excluded* from gross income if:
  - Proceeds paid to beneficiary by reason of death of the insured

    and
  - Beneficiary has an insurable interest

Note: Interest on proceeds paid over several years is generally taxable income

LIFE INSURANCE PROCEEDS EXAMPLE

Example

Karina dies on 6/15/18, leaving her husband, Dann, a $500,000 life insurance policy. The proceeds will be paid out to Dann $100,000 per year plus interest for 5 years.

In the current year, Dann receives $105,000 ($100,000 + $5,000 interest). How much is taxable to Dann in the current year?

SOLUTION (3 of 5)

Example

Karina dies on 6/15/18, leaving her husband, Dann, a $500,000 life insurance policy. The proceeds will be paid out to Dann $100,000 per year plus interest for 5 years. In the current year, Dann receives $105,000 ($100,000 + $5,000 interest). How much is taxable to Dann in the current year?

Solution

Dann must include the $5,000 of interest income in his gross income calculation; the face value of $100,000 is not taxable.

VIATICAL SETTLEMENTS

- Also known as accelerated death benefits
- Viatical settlements are excludable from gross income in certain situations
  - Chronically or terminally ill taxpayer collects early payout from insurance company or sells/assigns policy to a viatical settlement provider
    - *Terminally ill* patient must have certification from MD stating that he/she reasonably expected to die within 24 months
    - *Chronically ill* must have certification from MD stating the he/she is unable to perform daily living activities unassisted

LIFE INSURANCE POLICY TRANSFERRED FOR VALUE

- If policy is transferred for value, then all or part of the proceeds may be taxable to recipient

Taxable amount = Proceeds from death of insured

− Cash surrender value at time of transfer

+ Premiums paid by purchaser

- Exception: if policy is transferred for value to partner of insured, a partnership in which insured is a partner or a corporation in which insured is an officer, then policy proceeds are *not* taxable

LIFE POLICY TRANSFER EXAMPLE

Example

Bianca transfers a life insurance policy with a face value of $25,000 and cash surrender value of $4,000 to Yvette as payment for services rendered. Yvette pays premiums of $500 per year for a total of $1,500 in the ensuing 3 years; Bianca dies and Yvette collects the $25,000. How much must Yvette include in her gross income?

How would this answer differ if Yvette and Bianca were partners in a partnership?

SOLUTION (4 of 5)

Example

Bianca transfers a life insurance policy with a face value of $25,000 and cash surrender value of $4,000 to Yvette as payment for services rendered. Yvette pays premiums of $500 per year for a total of $1,500 in the ensuing three years; Bianca dies and Yvette collects the $25,000. How much must Yvette include in her gross income? How would this answer differ if Yvette and Bianca were partners in a partnership?

Solution

Yvette must include $19,500 in income [$25,000 − $4,000 + $1,500].

If Yvette and Bianca were partners in a partnership, the entire proceeds ($25,000) would be tax-free.

INTEREST INCOME

- If total interest income >$1,500, must report on Schedule B of Form 1040
- Interest is reported in year received for cash basis taxpayers
  - Fair market value of gifts/services a taxpayer receives for making long-term deposits or opening an account are taxable interest

U.S. GOVERNMENT BONDS

- Series EE bonds
  - Purchase at discount and then redeem
    - Interest is generally taxed year bonds are redeemed
- Series HH bonds
  - Issued at face value
    - Pay interest semiannually and interest is taxed each year
    - Treasury stopped issuing 8/04, but there are still outstanding HH bonds paying interest
- Series I bonds
  - Purchase for face value
  - Earnings are adjusted semiannually for inflation
    - Interest taxed each year or at maturity

DIVIDEND INCOME

- *3 kinds of dividends*
  - Ordinary dividends are most common
    - Return of net income to shareholders
    - Schedule B when total dividend income > $1,500
  - Nontaxable distributions are return of original investment - not paid from corporation's earnings and profits
    - Not included in taxpayer's income and reduces basis in stock
  - Capital gain distributions (CGD)
    - When stock reaches zero basis, further distributions are CGD
    - *Report on page 1 of Form 1040 or Schedule D of Form 1040*

CURRENT TAX RATES FOR DIVIDENDS

- "Qualifying dividends" are classified by corporations issuing dividends and brokerage firms holding stock investments
- If not "qualifying," dividends taxed at ordinary rates

Income Level	Qualifying dividends and long-term capital gains rates*
MFJ $0-$77,200	0%
$77,201 – $479,000	15%
> $479,001	20%
S $0-$38,600	0%
$38,601 – $425,800	15%
> $425,801	20%
HOH $0 – $51,700	0%
$51,701 – $452,400	15%
$452,401	20%

*Additional 3.8% Medicare tax for high-income taxpayers

REPORTING INTEREST & DIVIDENDS

- Payors send recipients Form 1099-INT or Form 1099-DIV for interest/dividends greater than $10
  - Taxable interest from each payor reported on Schedule B, if interest > $1,500
  - Tax exempt interest reported on Line 2a of 1099-DIV
- Ordinary dividends reported in Box 1a of 1099-DIV
  - Box 1b reports qualified dividends (included in Box 1a)
  - Capital gains dividends, which are reported in Box 2a, are reported on Schedule D

MUNICIPAL BOND INTEREST

- Taxpayer may exclude interest on state and local government
- Interest rates generally reflect after-tax return that compensates higher income taxpayers
- After-tax return for tax-free bond calculated as follows

After-tax return = Tax-free interest rate / (1.00 − taxpayer's tax rate)

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MUNICIPAL BOND INTEREST EXAMPLE

Example

Gopal is in the 32% federal income tax bracket and invests in a Nashville City Bond paying 6%. What taxable interest rate will yield the same after-tax return as the municipal bond?

SOLUTION (5 of 5)

Example

Gopal is in the 32% federal income tax bracket and invests in a Nashville City Bond paying 6%. What taxable interest rate will yield the same after-tax return as the municipal bond?

Solution

Taxable interest rate equivalent = 8.82%

$$(.06) / (1.00 - .32) = .0882$$

GIFTS & INHERITANCES

- Inheritances are excluded from income
  - Any income generated from property received after transfer is taxable
  - Estate may incur taxes
- Gifts received are excluded from income
  - A gift is defined by the courts as a voluntary transfer of property without adequate consideration
  - Gifts in business settings usually considered taxable income
  - If recipient renders services for the gift, amount is taxable

SCHOLARSHIPS

- Scholarships received for fees, books, tuition, course-required supplies or equipment are excluded from income
- Must include scholarship amounts in income for:
  - Any amounts applied to room and board
  - Any amounts received as compensation for required work (*including work study*)

ALIMONY

- Alimony, prior to 12/31/18, was deductible to payer and taxable to payee
  - TCJA eliminated the deduction for alimony; conversely, the recipient need not include alimony received as income
- Alimony payments must meet *five requirements* as follows (if subject to divorce agreement after 1984)
  - Must be in cash and received by ex-spouse
  - Must be made in connection with written instrument
  - Can't continue after death of ex-spouse
  - Can't be designated as anything other than alimony
  - Parties may not be members of the same household

CHILD SUPPORT

- Child support is not deductible to payer and not taxable to payee
- Is important factor, however, in determining which spouse gets dependency exemption

QUALIFIED TUITION PROGRAMS (QTP)

- Sometimes called §529 tuition plans
- Allows taxpayers to meet higher education expenses by
  - Buying in-kind tuition credits or certificates

    or
  - Contributing to an established savings-type account
- Distributions are generally not taxed if funds used for higher education
  - The TCJA identifies "tuition' as the expense targeted; therefore, books, supplies, equipment, etc. do not appear to qualify. *Reasonable room and board costs qualify.*
  - The TCJA expanded this plan to include tuition for elementary/secondary education in public, private or religious schools, up to $10,000/year
  - If not used for purposes outlined or the taxpayer withdraws early, then distributions are taxable plus 10% penalty

QTP

- Annual contribution amounts vary
  - Contribution is not deductible
  - High limits in most states (but subject to gift tax rules)
- May claim American Opportunity Credit or Lifetime Learning Credit (see Chapter 7) in same year as distribution taken from a QTP
  - As long as distribution is *not used for the same expenses* for which an education credit was claimed
  - Must also reduce qualified higher education expenses excluded from income by scholarships, veterans' benefits, etc.

EDUCATION SAVINGS ACCOUNTS (1 of 2)

- These accounts allow taxpayers to meet higher education expenses by contributing to an educational savings account
- Annual contributions are not deductible
  - Allowed until beneficiary reaches 18
  - Limited to $2,000/year per child
  - Can’t make in same year as QTP contribution
  - Phase-out when AGI exceeds $190,000 (MFJ) or $95,000 (S)

EDUCATION SAVINGS ACCOUNTS (2 of 2)

- Distributions are tax free if used for higher education or private elementary/secondary ed
  - Tuition, fees, books, supplies, equipment, room/board if at least ½ time student
  - Distribution assumed to be pro rata from each category (return of capital versus earnings)
- May claim educational credit in same year as distribution as long as distribution is not used for the same expenses
  - If distributions > qualified education expenses, part of distribution will be taxable income

HIGHER EDUCATION EXPENSE DEDUCTION*

- Up to $4,000 above-the-line deduction for qualified tuition and related expenses (phased out over $130,000 AGI (MFJ))

  or

- Up to $2000 deduction (phased out over $65,000 AGI (HOH, S))

Currently expired, included herein because has been previously extended multiple times

UNEMPLOYMENT COMPENSATION

- Unemployment compensation payments are fully taxable in 2018
- Reported on Form 1099-G
- These payments are deductible on some state's income tax returns

SOCIAL SECURITY BENEFITS

- Part of Social Security benefits *may be* included in gross income
  - Maximum inclusion amount = 85%
- Inclusion based on taxpayer's Modified AGI (MAGI)
  - MAGI = AGI + tax-exempt interest (and other items)
- If [MAGI + (50%)(SS benefits)] < base amount* then benefits are not includable

**If this number exceeds base amount, must compute taxable portion. See pages 2-34 and 2-35 for sample worksheets on how to calculate includable Social Security benefits.*

CALCULATING TAXABLE AMOUNT OF SS BENEFITS

If [MAGI + (50%)(SS benefits)] exceeds base amount as follows:

Base Amount	Filing Status
$32,000	MFJ
$25,000	All others

…then, the taxable amount is calculated by completing the Simplified Taxable Social Security Worksheet (pages 2-34 – 2-35)

THE END