Fundamentals of Taxation 2017 Edition 10th edition Cruz Solutions Manual

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CHAPTER 2 – SOLUTIONS
END OF CHAPTER MATERIAL

Discussion Questions

1. What is a *for* AGI deduction? Give three examples.

Learning Objective: 02-01
Topic: Form 1040 and 1040A
Difficulty: 1 Easy
Feedback: A deduction for AGI is a deduction permitted under the IRC that is used to calculate AGI. It can also be thought of as a deduction from gross income to arrive at AGI. Examples include deductions for IRAs, Keoghs, or other self-employed qualified pension plans; student loan interest; moving expenses; one-half the self-employment tax; self-employed health insurance deduction; penalty on early withdrawal of savings; and alimony paid.
EA: Yes

2. What are the five types of filing status?

Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: The five types of filing status are:
Single
Married filing a joint return
Married filing separate returns
Head of household
Qualifying widow(er) with dependent child
EA: Yes

3. What qualifications are necessary to file as head of household?

Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: To qualify as head of household, the taxpayer must be unmarried at the end of the tax year, be a U.S. citizen or resident throughout the year, not be a qualifying widow(er), and maintain a household that is the principal place of abode of a *qualifying person* for more than half the year or pay more than half the costs of maintaining a separate household for the taxpayer's mother or father if the mother or father qualifies as a dependent of the taxpayer. Temporary absences, such as attending school do not disqualify the person under this section.
EA: Yes

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4. George and Debbie were legally married on December 31, 2016. Can they file their 2016 income tax return using the status of married filing jointly? Why or why not? What other filing status choices do they have, if any?

Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: Yes, George and Debbie can file using the filing status of married filing jointly. The requirement for this status is that the couple be legally married on the last day of the tax year. Alternatively, the couple could choose to use the married filing separate status.
EA: Yes

5. What is the amount of the personal and dependency exemptions for 2016?

Learning Objective: 02-03
Learning Objective: 02-04
Topic: Personal and Dependency Exemptions
Difficulty: 1 Easy
Feedback: The amount is $4,050 for personal and dependency exemptions.
EA: Yes

6. What are the three general tests that a qualifying person must meet to be a dependent of the taxpayer?

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 1 Easy
Feedback: To be a dependent of the taxpayer, a qualifying child and a qualifying relative must meet the three general tests: dependent taxpayer test, joint return test and citizen or resident test.
EA: Yes

7. What are the five specific tests necessary to be a qualifying child of the taxpayer?

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 1 Easy
Feedback: A person is a qualifying child if he or she meets all five of the following tests: relationship test, age test, residency test, support test, and special test - for qualifying child of more than one taxpayer.
EA: Yes

8. What age must a child be at the end of the year to meet the age test under the qualifying child rules?

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Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 1 Easy
Feedback: At the end of the year, the child must be: under the age of 19; under the age of 24 and a full-time student; or totally and permanently disabled regardless of age. In addition, after 2008, the child must be younger than the person claiming the dependency.
EA: Yes

9. What are the four specific tests necessary to be a qualifying relative of the taxpayer?

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 1 Easy
Feedback: A person qualifies as a qualifying relative if he or she meets all four of the following tests: not a qualifying child test, relationship or member of household test, gross income test, and support test.
EA: Yes

10. What is a multiple support agreement, and what is its purpose?

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 2 Medium
Feedback: Normally, in order to claim someone as a dependent a taxpayer must provide more than half the support of the person. At times, an individual may receive support from multiple persons, but no one person has provided more than 50% of the support. In such a case, a multiple support agreement can be signed. If every one of the persons providing support could claim the individual as a dependent (absent the support test) then one person who provided more than 10% of the support can receive the dependency exemption if all persons sign a written multiple support agreement.

The purpose of the agreement is so someone can obtain the dependency exemption rather than no one. Further, the agreement provides a mechanism such that all parties can agree on who that person should be.
EA: Yes

11. Mimi is 22 years old and is a full-time student at Ocean County Community College. She lives with her parents, who provide all of her support. During the summer, she put her Web design skills to work and earned $4,150. Can Mimi's parents claim her as a dependent on their joint tax return? Why or why not? Assume that all five tests under qualifying child are met.

Learning Objective: 02-04

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Topic: Dependency Exemptions
Difficulty: 2 Medium
Feedback: All of the dependency tests are met by Mimi's parents, so they can claim her as a dependent. The fact that Mimi earned $4,150 does not matter since Mimi is under age 24 and she is a full-time student at a qualifying educational institution. Thus, the gross income test is not necessary for a qualifying child as long as Mimi does not provide more than half of her own support.
EA: Yes

12. What is the standard deduction for each filing status?

Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 1 Easy
Feedback: The standard deduction for each filing status for 2016 is:

Single	**$ 6,300**
Married filing jointly	**12,600**
Married filing separately	**6,300**
Head of household	**9,300**
Qualifying widow(er)	**12,600**

EA: Yes

13. Under what circumstances must a taxpayer use a tax rate schedule rather than using a tax table?

Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 1 Easy
Feedback: If the taxable income of a taxpayer is $100,000 or more, a tax rate schedule must be used. Taxable income of less than $100,000 requires the use of a tax table.
EA: Yes

14. When and at what rate is interest calculated on amounts owed to the IRS?

Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 2 Medium
Feedback: If the taxpayer still owes tax after April 15th. The rate charged is the federal short-term rate plus 3 percentage points.
EA: Yes

15. Prepare a table of the possible IRS penalties listed in the text and give a brief summary of the purpose of each penalty.

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Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 2 Medium
Feedback:

Penalty	Reason for Penalty
Interest charged on assessments	**To encourage taxpayers to pay assessments in a timely manner and to compensate the government for the time-value of late payments**
Failure to file a tax return	**To reprimand taxpayers for failing to file a tax return**
Failure to pay tax	**To seek retribution from taxpayers who fail to pay tax**
Failure to pay estimated taxes	**To penalize taxpayers for failing to pay estimated taxes throughout the year**
Accuracy-related penalties	**To seek retribution from taxpayers for underpayments or submitting tax returns with errors**
Fraud penalties	**To penalize taxpayers for providing fraudulent information**
Erroneous claim for refund or credit penalty	**To penalize taxpayers for filing an excessive claim for refund or credit of income tax**

EA: Yes

Multiple Choice

16. A single taxpayer is 26 years old and has wages of $18,000 and interest income of $450. Which is the simplest tax form this person can file?
a. 1040.
b. 1040EZ.
c. 1040A.
d. 1040Z.

Answer: b.
Learning Objective: 02-01
Topic: Form 1040 and 1040A
Difficulty: 1 Easy
Feedback: The simplest form to file is the 1040EZ. The taxpayer, who is under age 65 and not blind, is single with no dependent, and his income of wages and interest income of only $450 is less than $100,000.
EA: Yes

17. Payment of alimony by the taxpayer is a *for AGI* deduction. Which form can the taxpayer use to claim this benefit?
a. Either 1040 or 1040A.
b. 1040.

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c. 1040A.
d. None of the above.

Answer: b.
Learning Objective: 02-01
Topic: Form 1040 and 1040A
Difficulty: 1 Easy
Feedback: Alimony deductions can only be claimed on Form 1040.
EA: Yes

18. A taxpayer is married with a qualifying child (dependent), but she has been living separately from her spouse for the last eight months of the year. However, she paid for more than half of the cost of keeping up the household. Her spouse does not want to file jointly. What filing status must she use when filing her tax return? She wants to obtain the maximum legal benefit.
a. Married filing separately.
b. Single.
c. Qualifying widow(er).
d. Head of household.

Answer: d.
Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: A taxpayer is considered unmarried for purposes of this section if the spouse was living apart during the last six months of the tax year.
EA: Yes

19. A taxpayer's spouse died on December 31, 2015. He has no qualifying child. Which status should the taxpayer select when filing his 2016 tax return?
a. Qualifying widow(er).
b. Married filing jointly.
c. Single.
d. Married filing separately.

Answer: c.
Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: The surviving spouse may be eligible to file as a qualifying widow(er) only if certain conditions are met, which include keeping a household as the principal place of abode for the entire year of both the surviving spouse and a child, stepchild, or adopted child who can be claimed as a dependent by the surviving spouse.
EA: Yes

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20. Esmeralda is 20 years of age and a full-time student living with her parents. She had wages of $500 ($50 of income tax withholding) for 2016. Can Esmeralda claim her own exemption on her return even though her parents will claim her as a dependent?
a. Yes, Esmeralda can claim the exemption.
b. No, Esmeralda cannot claim the exemption.
c. Esmeralda and her parents can both claim the exemption.
d. No one can claim the exemption for Esmeralda.

Answer: b.
Learning Objective: 02-03
Topic: Personal Exemption
Difficulty: 1 Easy
Feedback: Esmeralda qualifies as a dependent of her parents; therefore, no personal exemption is allowed on her return.
EA: Yes

21. What is the amount of the personal and dependency exemptions for 2016?
a. $3,950.
b. $3,800.
c. $4,000.
d. $4,050.

Answer: d.
Learning Objective: 02-03
Learning Objective: 02-04
Topic: Personal and Dependency Exemptions
Difficulty: 1 Easy
Feedback: The amount of the personal and/or dependency exemption for 2016 is $4,050.
EA: Yes

22. To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which of the following is *not* part of the five specific tests?
a. Support test.
b. Age test.
c. Gross income test.
d. Relationship test.

Answer: c.
Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 1 Easy
Feedback: The gross income test does not apply to a qualifying child; only to a qualifying relative.
EA: Yes

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23. To be a qualifying relative, who has to live in the home of the taxpayer for the entire year?
a. Cousin.
b. Child.
c. Stepchild.
d. Father.

Answer: a.
Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 2 Medium
Feedback: A cousin does not meet the relationship test under this area. He/she must live in the taxpayer's household for the entire year.
EA: Yes

24. Which amount represents the standard deduction for a taxpayer who is 44 years old and claiming head of household status?
a. $9,100.
b. $9,300.
c. $9,250.
d. $6,300.

Answer: b.
Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 1 Easy
Feedback: The standard deduction for a taxpayer under age 65 and claiming head of household status is $9,300.
EA: Yes

25. A married couple, both of whom are under 65 years old, decided to file as married filing separately. One of the spouses is going to itemize deductions instead of taking the standard deduction. What is the standard deduction permitted to the other spouse when she files her tax return?
a. $12,600.
b. $9,300.
c. $6,300.
d. $0.

Answer: d
Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 1 Easy
Feedback: When filing as married filing separately, if one of the spouses itemizes, then the other spouse must itemize or receive a standard deduction of zero.
EA: Yes

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26. Employers are required to withhold social security taxes from wages paid to employees. What is the amount of the social security wage limitation for 2016?
a. $118,500.
b. $117,000.
c. $113,700.
d. $106,800.

Answer: a
Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 1 Easy
Feedback: The amount of the social security wage limitation for 2016 is $118,500.
EA: Yes

27. What is the amount of the tax liability for a married couple filing jointly with taxable income of $135,500?
a. $33,875.
b. $28,333.
c. $20,325.
d. $25,418.

Answer: d
Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 2 Hard
Feedback: The amount is $25,418 computed as follows:
($135,500-$75,300).25 plus $10,367.50.
EA: Yes

28. What is the percentage of interest the IRS was charging on assessment (amount of unpaid tax liability) during March 2016? You might want to do this research by going to the IRS Web site (www.irs.gov).
a. 6%.
b. 5%.
c. 3%.
d. 4%.

Answer: c
Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 1 Easy
Feedback: The interest rate is 3% for underpayments occurring during March of 2016.
EA: Yes

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29. When there is negligence on a return, the IRS charges a penalty of _____of the tax due.
a. 25%.
b. 20%.
c. 18%.
d. 10%.

Answer: b
Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 1 Easy
Feedback: The IRS can assess a penalty equal to 20% of the tax due when negligence has occurred.
EA: Yes

30. When there is fraud on a return, the IRS charges a penalty of _____ on any portion of understatement of tax that is attributable to the fraud.
a. 20%.
b. 25%.
c. 75%.
d. 100%.

Answer: c
Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 1 Easy
Feedback: The IRS can impose a penalty of 75% on any portion of understatement of tax that is attributable to fraud.
EA: Yes

Problems

31. The benefits of many deductions, credits, or other benefits are limited to taxpayers with Adjusted Gross Income below certain limits.

a. Explain how the limitation (phaseout) process works.
b. Give two examples of deductions, credits, or other benefits that are limited.
c. Why would Congress wish to limit the benefits of these items?

Learning Objective: 02-01
Topic: Form 1040 and 1040A
Difficulty: 2 Medium
Feedback:

a. Taxpayers with AGI in excess of certain specified amounts are prohibited from utilizing the full amount of many deductions, credits, or other tax benefits. Many tax benefits are structured such that taxpayers with low AGI are not limited, taxpayers with high AGI receive no benefit, and taxpayers in

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the middle receive a reduced benefit as AGI increases. Sometimes a specified AGI amount represents the dividing line between receiving the full amount of a benefit or not receiving any benefit.

b. Examples of benefits which are subject to limitation include: earned income tax credit, child care credit, child tax credit, and deductibility of IRA contributions.

c. There may be a number of reasons why Congress might restrict benefits. First, reducing benefits results in higher taxable income and tax liability, thus increasing tax revenues. Second, taxpayers with higher AGI are often deemed to be able to financially afford fewer benefits and higher taxes since they have more money to start with. Third, and somewhat ironically, there are fewer high income voters compared to low and moderate income voters.

EA: Yes

32. List the five types of filing status and briefly explain the requirements for the use of each one.

Learning Objective: 02-02
Topic: Filing Status
Difficulty: 1 Easy
Feedback: The five types of filing status and requirements are:

***Single*. Taxpayer must be unmarried on the last day of the tax year and must not qualify as either head of household or qualifying widow(er).**

***Married filing a joint return*. Taxpayers must be legally married on the last day of the tax year. Taxpayers in the process of getting a divorce can file with this classification as long as the divorce is not final. Generally, neither taxpayer can be a nonresident alien at any time during the tax year.**

***Married filing separate returns*. Taxpayers must meet the requirements for married filing jointly and can then choose to file married filing separately.**

***Head of household*. In order to qualify as head of household, the taxpayer must be unmarried at the end of the tax year, be a U.S. citizen or resident throughout the year, not be a qualifying widow(er), and maintain a household that is the principal place of abode of a *qualifying person* for more than half the year. If the mother or father of the taxpayer qualifies as a dependent of the taxpayer, the taxpayer can be eligible for head of household status by paying more than half the costs of maintaining a separate household that is the principal place of abode for the mother or father.**

***Qualifying widow(er) with dependent child.* During the two years following the year of death of a spouse, a taxpayer can file as a qualifying widow(er) if the taxpayer did not remarry and if the taxpayer maintained a household which was the principal place of abode for the entire year of the taxpayer**

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and a dependent child, stepchild, or adopted child. In addition, the taxpayer must have been eligible to file a joint return in the year the spouse died.
EA: Yes

33. In which of the following cases may the taxpayer claim head of household filing status?

a. The taxpayer is single and maintains a household that is the principal place of abode of her infant son.
b. The taxpayer is single, maintains a household for herself, and maintains a separate household that is the principal place of abode of her dependent widowed mother.
c. The taxpayer was married from January to October and lived with his spouse from January to May. From June 1 to December 31, the taxpayer maintained a household that was the principal place of abode of his married son and daughter-in-law, whom the taxpayer can claim as dependents.
d. Same as (c) except the taxpayer lived with his ex-spouse until August and maintained the household from September 1 to the end of the year.

Learning Objective: 02-02
Topic: Filing Status
Difficulty: 2 Medium
Feedback:

a. The taxpayer can claim head of household status.
b. The taxpayer can claim head of household status. It is not necessary that her mother live in the same household as the taxpayer.
c. The taxpayer can claim head of household status.
d. The taxpayer cannot claim head of household status. The son and daughter-in-law must live with the taxpayer for more than half the tax year. And the taxpayer cannot live with his or her spouse during the last 6 months of the year.

EA: Yes

34. How many personal exemptions can a taxpayer claim on his or her tax return? Explain your answer.

Learning Objective: 02-03
Topic: Personal Exemption
Difficulty: 1 Easy
Feedback: The taxpayer is only entitled to one personal exemption ($4,050 for 2016) for himself or herself. However, if he or she is married, then another personal exemption can be claimed for the spouse.
EA: Yes

35. Roberta is widowed and lives in an apartment complex. She receives $8,000 of social security income that she uses to pay for rent and other household expenses. The remainder of her living expenses is paid by relatives and neighbors. The total amount of

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support paid by Roberta and the others totals $22,000. Amounts paid for support during the year are as follows:

Roberta	$8,000
Ed (neighbor)	4,000
Bill (son)	5,000
Jose (neighbor)	2,000
Alicia (niece)	3,000

a. Which of these persons is entitled to claim Roberta as a dependent absent a multiple support agreement?
b. Under a multiple support agreement, which of these persons is entitled to claim Roberta as a dependent? Explain your answer.
c. If Roberta saved all of her social security income and the other persons paid for the shortfall in the same proportions as shown, which of these persons would be entitled to claim Roberta as a dependent under a multiple support agreement? Explain your answer.

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 3 Hard
Feedback:

a. Absent a multiple support agreement, no one is allowed to claim Roberta as a dependent.

b. If a multiple support agreement were executed, no one would be able to claim Roberta as a dependent. A person is entitled to claim a dependent under a multiple support agreement if (1) over half the dependent's support was received from a group of people who would each have been entitled to claim the person as a dependent absent the support test, (2) no one person in the group provided over half the support, and (3) the person claiming the exemption paid over 10% of the support. In this instance, the only persons entitled to claim Roberta as a dependent absent the support test are Bill and Alicia since neither Ed and Jose meet the relationship test (this assumes that Roberta is Alicia's aunt by blood and not by marriage). Bill and Alicia contributed only 36% of Roberta's support ([$5,000 + $3,000] / $22,000). Thus, criterion #1 above is not met and no one is entitled to the dependency exemption for Roberta.

c. Here, the amount paid in support of Roberta is recalculated as follows (percentages are rounded to the nearest full percent):

	Original Amount Paid	Percentage of Original Total	Revised Amount Paid
Ed (neighbor)	**$4,000**	**29%**	**$ 6,380**
Bill (son)	**5,000**	**36%**	**7,920**
Jose (neighbor)	**2,000**	**14%**	**3,080**

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Alicia (niece)	**3,000**	**21%**	**4,620**
	---------		**---------**
	$14,000		**$22,000**

As in case (b), either Bill or Alicia is entitled to the dependency exemption absent the support test. Between them, they provided over 50% of the support of Roberta and each one of them provided over 10% of her support. Thus, either Bill or Alicia would be entitled to the dependency exemption if a multiple support agreement were executed.

EA: Yes

36. Shandra is a U.S. citizen and is the 68-year-old widowed mother of Janet. After retirement, Shandra decided to fulfill a lifelong dream and move to Paris. Shandra receives $1,000 of interest income, but all of her other living expenses (including rent on her Paris apartment with spectacular views of the Eiffel Tower) are paid by Janet. Janet resides in Chicago. Is Janet entitled to a dependency exemption for Shandra? Explain your answer.

Learning Objective: 02-04
Topic: Dependency Exemptions
Difficulty: 2 Medium
Feedback: Yes, Janet is entitled to dependency exemption for Shandra.

The four specific criteria to be able to claim a qualifying relative as a dependent are:

Not a qualifying child test. **Shandra is not the qualifying child of another taxpayer.**
Relationship test. **Shandra meets the relationship test since she is the mother of Janet.**
Gross income test**. Shandra does not earn equal to or more than the personal exemption amount.**
Support test**. Janet provides over 50% of Shandra's support.**

In addition, the general tests are also met:

Joint return**. Shandra is widowed and will not file a joint return.**
Citizenship test**. Shandra is a U.S. citizen.**
Dependent taxpayer test**. Janet cannot be claimed as a dependent by another person.**

The fact that Shandra lives in Paris does not matter. It is not important that a dependent live in the U.S., only that he or she is a citizen of the U.S. (or be a certain resident or national).

EA: Yes

37. Donald is a 21-year-old full-time college student. During 2016, he earned $2,500 from a part-time job and $1,150 in interest income. If Donald is a dependent of his parents, what is his standard deduction amount? If Donald supports himself and is not a dependent of someone else, what is his standard deduction amount?

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Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 2 Medium
Feedback: Donald's standard deduction amount if he is a dependent of his parents is the greater of $1,050 or his earned income plus $350. Donald's earned income is $2,500 so his standard deduction will be $2,850.
If Donald is self-supporting, his standard deduction amount will be $6,300.
EA: Yes

38. Julio and Martina are engaged and are planning to travel to Las Vegas during the 2016 Christmas season and get married around the end of the year. In 2016, Julio expects to earn $45,000 and Martina expects to earn $15,000. Their employers have deducted the appropriate amount of withholding from their paychecks throughout the year. Neither Julio nor Martina has any itemized deductions. They are trying to decide whether they should get married on December 31, 2016, or on January 1, 2017. What do you recommend? Explain your answer.

Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 3 Hard
Feedback: From a tax perspective, it would be more advantageous for Julio and Martina to marry in 2016.

The tax liability of Julio and Martina under each scenario would approximate the following:

	---- Single Returns ----		
	Martina	**Julio**	**Joint Return**
Adjusted Gross Income…..	**$ 15,000**	**$ 45,000**	**$ 60,000**
Standard deduction ……	**(6,300)**	**(6,300)**	**(12,600)**
Personal exemptions……...	**(4,050)**	**(4,050)**	**(8,100)**
Taxable Income……..	**$ 4,650**	**$ 34,650**	**$ 39,300**
Tax liability ……	**$ 468**	**$ 4,738**	**$ 4,971**

If Julio and Martina get married in 2016 and file a joint return, they will pay $4,971 in federal income tax. If they wait until January 1, 2017, their collective tax liability in 2016 would be $5,206. Thus, for tax purposes, it makes more sense for Julio and Martina to get married in 2016.
EA: Yes

39. Determine the amount of the standard deduction for each of the following taxpayers for tax year 2016:

a. Christina, who is single.
b. Adrian and Carol, who are filing a joint return. Their son is blind.
c. Peter and Elizabeth, who are married and file separate tax returns. Elizabeth will itemize her deductions.

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d. Patricia, who earned $1,100 working a part-time job. She can be claimed as a dependent by her parents.
e. Rodolfo, who is over 65 and is single.
f. Bernard, who is a nonresident alien with U.S. income.
g. Manuel, who is 70, and Esther, who is 63 and blind, will file a joint return.
h. Herman, who is 75 and a qualifying widower with a dependent child.

Learning Objective: 02-05
Topic: Standard Deduction
Difficulty: 2 Medium
Feedback:

a. Christina, $6,300.
b. Adrian and Carol, $12,600. They do not get an additional amount for their son.
c. Peter and Elizabeth, $0. Since Elizabeth itemizes, Peter must also itemize so both are entitled to no standard deduction, only an itemized deduction.
d. Patricia, $1,450 (her earned income plus $350).
e. Rodolfo, $7,850 ($6,300 + $1,550).
f. Bernard, $0, since he is a nonresident alien.
g. Manuel and Esther, $15,100 ($12,600 + $1,250 + $1,250). Each is entitled to an additional standard deduction; Manuel because he is over 65 and Esther because she is blind.
h. Herman, $13,850 ($12,600 + $1,250).

EA: Yes

40. Using the appropriate tax tables or tax rate schedules, determine the amount of tax liability in each of the following instances.

a. A married couple filing jointly with taxable income of $32,991.
b. A married couple filing jointly with taxable income of $192,257.
c. A married couple filing separately, one spouse with taxable income of $43,885 and the other with $56,218.
d. A single person with taxable income of $79,436.
e. A single person with taxable income of $297,784.
f. A head of household with taxable income of $96,592.
g. A qualifying widow with taxable income of $14,019.
h. A married couple filing jointly with taxable income of $11,216.

Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 3 Hard
Feedback: All answers rounded to the nearest dollar.

a. $4,019 from the tax table.
b. $40,817 from the tax rate schedule.
c. $6,740 and $9,828 from the tax table.
d. $15,628 from the tax table.
e. $81,798 from the tax rate schedule.

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f. $18,441 from the tax table.
g. $1,403 from the tax table.
h. $1,123 from the tax table.
EA: Yes

41. Determine the average tax rate and the marginal tax rate for each instance in question 40.

Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 3 Hard
Feedback: Answers are rounded to the nearest tenth of a percent. Average rates are determined by dividing the tax liability by the taxable income. Marginal rates are determined by reference to the appropriate tax rate schedule.

a. Average = 12.2% Marginal = 15%
b. Average = 21.2% Marginal = 28%
c. Average = 15.4% and 17.5% Marginal = 25% and 25%
d. Average = 19.7% Marginal = 25%
e. Average = 27.5% Marginal = 33%
f. Average = 19.1% Marginal = 25%
g. Average = 10% Marginal = 10%
h. Average = 10% Marginal = 10%
EA: Yes

42. Using the appropriate tax tables or tax rate schedules, determine the tax liability for tax year 2016 in each of the following instances. In each case, assume the taxpayer can take only the standard deduction.

a. A single taxpayer, not head of household, with AGI of $23,493 and one dependent.
b. A single taxpayer, not head of household, with AGI of $169,783 and no dependents.
c. A married couple filing jointly with AGI of $39,945 and two dependents.
d. A married couple filing jointly with AGI of $162,288 and three dependents.
e. A married couple filing jointly with AGI of $301,947 and one dependent.
f. A taxpayer filing married filing separately with AGI of $68,996 and one dependent.
g. A qualifying widow, age 66, with AGI of $49,240 and one dependent.
h. A head of household with AGI of $14,392 and two dependents.
i. A head of household with AGI of $59,226 and one dependent.

Learning Objective: 02-06
Topic: Tax Computation
Difficulty: 3 Hard
Feedback:

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a. **Taxpayer is entitled to a standard deduction of $6,300 and two exemptions of $4,050 each. Taxable income is $9,093 and tax liability is $908 according to the tax tables.**
b. **Taxpayer is entitled to a standard deduction of $6,300 and a personal exemption of $4,050. Taxable income is $159,433 and tax liability is $37,678 according to the tax rate schedules.**
c. **Taxpayer is entitled to a standard deduction of $12,600 and four exemptions of $4,050 each. Taxable income is $11,145 and tax is $1,113 according to the tax tables.**
d. **Taxpayer is entitled to a standard deduction of $12,600 and five exemptions of $4,050 each. Taxable income is $129,438 and tax is $23,902 according to the tax rate schedules.**
e. **Taxpayer is entitled to a standard deduction of $12,600 and three exemptions of $4,050 each. Taxable income is $277,197 and tax is $66,888 according to the tax rate schedules.**
f. **Taxpayer is entitled to a standard deduction of $6,300 and two exemptions of $4,050 each. Taxable income is $54,596 and tax is $9,415 according to the tax tables.**
g. **Taxpayer is entitled to a standard deduction of $13,850 ($12,600 + $1,250) and two exemptions of $4,050 each. Taxable income is $27,290 and tax is $3,164 according to the tax tables.**
h. **Taxpayer is entitled to a standard deduction of $9,300 and three exemptions of $4,050 each. Taxable income is zero and tax is zero.**
i. **Taxpayer is entitled to a standard deduction of $9,300 and two exemptions of $4,050 each. Taxable income is $41,826 and tax is $5,611 according to the tax tables.**

EA: Yes

43. Victoria's 2016 tax return was due on April 15, 2017, but she did not file it until June 12, 2017. Victoria did not file an extension. The tax due on the tax return when filed was $8,500. In 2016, Victoria paid in $12,000 through withholding. Her 2015 tax liability was $11,500. Victoria's AGI for 2016 is less than $150,000. How much penalty will Victoria have to pay (disregard interest)?

Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 3 Hard
Feedback: Victoria must pay a failure to file penalty and failure to pay penalty calculated as follows:

	$12,000	**withholding paid**
+	**$ 8,500**	**tax due**
	$20,500	**total tax for 2016**
	$ 8,500	**underpayment**
	x10%	**2 months late × 5% penalty per month (both penalties**

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are combined)
$ 850 Failure to file and pay penalties

In order to avoid the underpayment penalty, Victoria must have paid the lesser of 90% of the current year's tax ($18,450) or 100% of the prior year's tax ($11,500). Since she paid $12,000 in withholding, she does not have to pay the underpayment penalty.

EA: Yes

44. Paul has the following information:

AGI for 2016 = $155,000
Withholding for 2016 = $ 24,000
Total tax for 2015= $ 29,000
Total tax for 2016= $ 33,793

a. How much must Paul pay in estimated taxes to avoid a penalty?
b. If Paul paid $1,000 per quarter, would he have avoided the estimated tax penalty?

Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 3 Hard
Feedback:

a. In order to avoid the underpayment penalty, Paul must pay the lesser of 90% of the current year tax ($30,414) or 100% of the prior year's tax ($29,000). His withholding for 2016 will be $24,000. Thus, Paul must pay at least $5.000 in estimated payments in 2016.

b. No. Assuming Paul's income was earned evenly throughout the year, he would need to pay at least $1.250 (5,000 / 4) per quarter in estimated payments to avoid the estimated income tax penalty.

EA: Yes

45. Charles and Joan Thompson file a joint return. In 2015, they had taxable income of $92,370 and paid tax of $14,806. Charles is an advertising executive and Joan is a college professor. During the fall 2016 semester, Joan is planning to take a leave of absence without pay. The Thompsons expect their taxable income to drop to $70,000 in 2016. They expect their 2016 tax liability will be $9,581, which will be the approximate amount of their withholding. Joan anticipates that she will work on academic research during the fall semester.

During September, Joan decides to perform consulting services for some local businesses. Charles and Joan had not anticipated this development. Joan is paid a total of $35,000 during October, November, and December for her work.

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What estimated tax payments are Charles and Joan required to make, if any, for tax year 2016? Do you anticipate that the Thompsons will be required to pay an underpayment penalty when they file their 2016 tax return? Explain your answer.

Learning Objective: 02-07
Topic: Interest and Penalties
Difficulty: 3 Hard
Feedback: Charles and Joan will be required to make estimated payments for tax year 2016. Estimated payments are required equal to the lesser of 90% of the tax shown on the current year return (which we will calculate below) or 100% of the prior year tax (which was $14,806).

The amount of estimated payments required for tax year 2016 (using the tax rate schedules) is:
Estimated year 2016 taxable income is $105,000 ($70,000 + $35,000)

Tax on $75,300……	**$10,367.50**
Tax on $29,700 ($105,000 – $75,300) x 25%……	**7,425.00**

Estimated 2016 tax liability…..……	**$17,792.50**
	x 90%

90% of estimated year 2016 tax liability…	**$16,013.25**
	========

Thus, Charles and Joan will need to pay estimated taxes based on $14,806 (which is the lesser of $14,806 or $16,013). Since they will have paid $9,581 in withholding payments, they will have to pay the difference of $5,225 in estimated payments. Because the tax liability shortfall was a result of income earned in the final quarter of the tax year, the estimated payment can be made in one payment on or before January 15, 2017.

If Charles and Joan make the estimated payment determined above, it is unlikely they will have an underpayment penalty on their year 2016 tax return.
EA: Yes

Tax Return Problems

Tax Return Problem #1

The solutions to the chapter tax return problems can be found on the instructor's resource library in Connect

Tax Return Problem #2

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The solutions to the chapter tax return problems can be found on the instructor's resource library in Connect

Tax Return Problem #3

The solutions to the chapter tax return problems can be found on the instructor's resource library in Connect

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CHAPTER 2

EXPANDED TAX FORMULA, FORMS 1040A AND 1040, AND BASIC CONCEPTS

Learning Objectives

LO 1. Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
LO 2. Determine the proper filing status.
LO 3. Calculate personal exemptions.
LO 4. Calculate dependency exemptions.
LO 5. Determine the standard deduction.
LO 6. Compute the amount of tax due to the Internal Revenue Service (IRS).
LO 7. Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

Topics of Primary Importance

- Understanding the significance of choosing the proper filing status;
- Understanding the computation of personal and dependency exemptions.
- Understanding the requirements for a qualifying child and a qualifying relative for purposes of the dependency exemption; and
- Understanding the computation of the tax liability, the tax or refund due, and the interest and penalties assessed by the IRS.

Student Confusion Areas

- Determining the qualifications to claim head of household status;
- Determining the requirements for a qualifying child and a qualifying relative; and
- Determining the failure to file and failure to pay penalties when both apply to the same tax return.

Note to Instructor

- When using software, certain tax credits, such as the Child Tax Credit, may appear on the tax return even though we have not yet discussed tax credits. This

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occurs because the taxpayer may be entitled to the credits and the software will automatically include the credit on the final tax return.

Notes Outline

I. **LO 1 –Major Sections of Forms 1040A and 1040**

A. Form 1040A is more complex than Form 1040EZ and Form 1040 is more complex than Form 1040A.

B. A taxpayer must use the form that is right for his or her particular situation. Always keep in mind that the simplest return should be used if the taxpayer's situation can be accommodated to the tax form.

C. By analyzing the Form 1040, the expanded tax formula can better be seen:

Gross Income (GI)
- Permitted deductions from gross income
= Adjusted Gross Income (AGI)
- Standard deduction or itemized deductions
- Personal and dependency exemptions
= Taxable income (TI)
x Appropriate tax rates
= Tax liability
- Tax credits
+ Other taxes
- Tax payments and refundable credits
= Tax refund or tax due with return

D. Adjusted gross income (AGI) is an extremely important concept because many deductions and credits are determined with reference to it.

II. **LO 2 – Filing Status**

A. There are five filing statuses:

1. Single
    a. Taxpayer is not married and does not qualify for head of household or qualifying widow(er) status.
    b. Divorce or separate maintenance decree must be legally executed on or before December 31st of the tax year.
    c. Marital status is determined on the last day of the tax year.
2. Married filing jointly
    a. Taxpayer must be legally married as of the last day of the tax year.
    b. Joint filing is permitted even though only one spouse earns all the income.
    c. A surviving spouse can file jointly if he or she has not remarried as of December31st of the tax year when the spouse died.

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d. If one of the spouses is a nonresident alien, generally a joint return cannot be filed.

3. Married filing separately
   a. Taxpayer must be legally married as of the last day of the tax year to select this filing status.
   b. Name and social security number of the other spouse must be listed on the taxpayer's tax return.
   c. Both spouses must take the standard deduction, or must itemize deductions when filing separately; they cannot choose independent from each other.
4. Head of household
   a. Taxpayer must be unmarried as of the last day of the tax year (there are certain rules for an abandoned spouse), be a U.S. citizen or resident throughout the year, not be a qualifying widow(er), and maintain a household that is the principal place of abode of a qualifying person for more than half of the year.
   b. A qualifying person can be a qualifying child or a qualifying relative.
   c. For a qualifying child:
      i. If the child is single, he or she does not have to be a dependent of the taxpayer.
      ii. If the child is married, he or she must be a dependent of the taxpayer.
   d. For a qualifying relative:
      i. Mother or father must be a dependent of the taxpayer, but there is no requirement for them to live in the taxpayer's home.
      ii. Other qualifying relatives must be dependents of the taxpayer and live in the taxpayer's home for more than half the year. It is important to understand that a person who is a qualifying relative only because he or she lived with the taxpayer all year as a member of his or her household is not a qualifying person for head of household status, as shown in Exhibit 2-3 of the text; also see IRS Pub 17 for more details.
5. Qualifying widow(er) with dependent child
   a. Taxpayer was eligible to file a joint return in the tax year the spouse died.
   b. Taxpayer must be unmarried as of the last day of the tax year.
   c. Dependent child must live with the taxpayer for the entire year (except for temporary absences).
   d. Taxpayer must pay more than half the cost of keeping up a household.

In-class Example – A surviving spouse who qualified as married filing jointly when the spouse died and has filed as a qualifying widow(er) for the next year can use the

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qualifying widow(er) status for the third year even though the child does not live at home and is not a dependent anymore. Is this true?
For the third year, the surviving spouse cannot file as qualifying widow(er) because all the required conditions for this filing status are not met. The surviving spouse must file single.

III. **LO 3 – Personal Exemptions**

A. Taxpayer can deduct an exemption for himself or herself and his or her spouse (if married).

B. The amount of the exemption is $4,050 in 2016.

C. If the taxpayer is claimed as a dependent on someone else's return, the taxpayer cannot claim a personal exemption for himself or herself on his or her own return.

IV. **LO 4 – Dependency Exemptions**

A. Taxpayer can claim a dependency exemption if the person is a qualifying child or a qualifying relative and meets the following tests:

1. Dependent taxpayer test
    a. The qualifying child or qualifying relative cannot be claimed as a dependent by someone else.
2. Joint return test
    a. The qualifying child or qualifying relative cannot file a joint tax return, unless this person files a joint tax return simply to claim a refund and there is no tax liability on the return.
3. Citizen or resident test
    a. The qualifying child or qualifying relative must be a U.S. citizen, resident, or national; a resident of Canada or Mexico; or an adopted child of the taxpayer if the child is a member of the taxpayer's household all year and the taxpayer is a U.S. citizen or national.

B. Who is a qualifying child?

To be considered a qualifying child, the following tests must be met:

1. Relationship test
    a. Child or descendant of child (grandchild or great-grandchild), stepchild, eligible foster child, brother, sister, half-brother, half-sister, stepbrother, or stepsister, or a descendant of them.
        i. A child includes an adopted child and includes a child placed for adoption in the taxpayer's household by an

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authorized adoption agency even if the adoption is not finalized.

2. Age test
   a. Under the age of 19.
   b. Under the age of 24 and a full-time student.
   c. Totally and permanently disabled regardless of age.
   For years after 2008, the child must be younger than the person claiming the dependency.
3. Residency test
   a. Child must live with the taxpayer for more than half the year, except for temporary absences.
4. Support test
   a. Child must not provide more than half of his or her support. Notice that this is different from the requirement under a qualifying relative.
5. Special test for qualifying child of more than one taxpayer
   a. Only one taxpayer can claim the child as a qualifying child. IRS will use the tie-breaker rules, as shown in Exhibit 2-4 of the text, to determine who is entitled to claim the child if the taxpayers involved cannot make a decision by themselves.

C. Who is a qualifying relative?

To be considered a qualifying relative, the following tests must be met:

1. Not a qualifying child test
   a. A qualifying relative cannot be a qualifying child of the taxpayer or someone else.
2. Relationship or member of household test
   a. A qualifying relative must be a member of the taxpayer's household for the entire year, or be related to the taxpayer. Only certain persons are considered related to the taxpayer.
      i. Child or descendant of child (grandchild or great-grandchild), stepchild, eligible foster child, brother, sister, half-brother, half-sister, or a descendant of them, stepbrother or stepsister, father or mother, brother or sister of parents, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.
      Note that if someone is related to the taxpayer (as indicated in the preceding list), it is not necessary that the person live with the taxpayer for the entire year or, actually, any part of the year. But it may be difficult to meet the support test if the individual does not live in the household.
3. Gross income test
   a. A qualifying relative cannot have gross income equal to or greater than the exemption amount ($4,050 for 2016).
4. Support test

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a. Taxpayer must provide over 50% of the qualifying relative's support.
b. There are two exceptions: Multiple support agreement and child of divorced or separated parents. For a more detailed explanation, refer to pages 2-14, 2-15 and 2-16 of the text.

Note: Personal and dependency exemptions have increased to $4,050, phasing out at different adjusted gross income amounts.

V. LO 5 – Standard Deduction

A. The standard deduction is the sum of the basic standard deduction and the additional standard deduction. Both components depend on filing status and are subject to annual adjustment for inflation.

1. The basic standard deduction for tax year 2016 is as follows:

Filing Status	Basic Standard Deduction
Single	$ 6,300
Married filing jointly	12,600
Married filing separately	6,300
Head of household	9,300
Qualifying widow(er)	12,600

2. The additional standard deductions for taxpayers who are 65 or older or blind are:

Filing Status	Tax Year 2016
Single	$ 1,550
Married filing jointly	1,250
Married filing separately	1,250
Head of household	1,550
Qualifying widow(er)	1,250

3. The standard deduction is zero if any of the following situations occur:
a. A married couple files separate returns and one spouse itemizes deductions.
b. The taxpayer is a nonresident alien.
c. A taxpayer files a return for a period of less than 12 months because of a change in accounting period.

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VI. **LO 6 – Refund or Tax Due**

A. Tax amount (line 28 on Form 1040A or line 44 on Form 1040)
1. Tax tables are used by most taxpayers with taxable income of less than $100,000.
2. Taxpayers with $100,000 or more use the tax rate schedules.

B. Tax liability (line 39 on Form 1040A or line 63on Form 1040)
1. Represents total amount the taxpayer must pay to the government for the tax year.

C. Tax payments (lines 40-45 on Form 1040A and lines 64-73 on Form 1040)
1. Most of these payments are submitted in advance to the IRS.
a. Examples are: income tax withholdings and quarterly estimated tax payments.
b. There is an underpayment penalty for not submitting the appropriate amount to the IRS in a timely manner.

D. Tax Refund (line 48a on Form 1040A or line 76a on Form 1040) or Tax Due with Return (line 50 on Form 1040A or line 78 on Form 1040)
1. Excess payment results in a refund.
2. Excess remaining tax liability means the taxpayer must pay the additional amount of tax to the IRS.

VII.**LO 7 – Interest and Penalties**

A. The following sections show interest charged on assessments and the most common civil and criminal penalties applicable to individual tax returns.
1. Interest charged on assessments

Time Period	Percentage Rate
Apr. 1, 2016 to Sept. 30, 2016	4%
July 1, 2015 to Mar. 31, 2016	3
Oct. 1, 2011 to June. 30, 2015	3
Apr. 1, 2011 to Sept. 30, 2011	4
Jan.1, 2011 to Mar. 31, 2011	3
Apr. 1, 2009 to Dec. 31, 2010	4
Jan. 1, 2009 to Mar. 31, 2009	5
Oct. 1, 2008 to Dec. 31, 2008	6
July 1, 2008 to Sept. 30, 2008	5
Apr. 1, 2008 to June 30, 2008	6
Jan. 1, 2008 to Mar. 31, 2008	7
July 1, 2007 to Dec. 31, 2007	8

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July 1, 2006 to June 30, 2007	8
Oct. 1, 2005 to June 30, 2006	7
Apr 1, 2005 to Sept. 30, 2005	6
Oct. 1, 2004 to Mar. 31, 2005	5

B. Failure to File Tax Penalty and Failure to Pay Tax Penalty

1. Failure to file tax penalty
    a. The 5% penalty is based on the amount of tax due for each month or fraction of a month, up to a maximum of 25%.
    b. Any income tax return not filed within 60 days of its due date is subject to a minimum penalty of the lesser of $135 or the amount of tax required on the return.
2. Failure to pay penalty
    a. The ½% penalty is based on the amount of tax due for each month or fraction of a month, up to a maximum of 25%.
3. *Caution:* When both penalties apply, the total percentage is 5% per month or fraction of a month, up to a maximum of 25%.

C. Failure to Pay Estimated Income Tax

1. Taxpayer must pay during the year, either through withholding or estimated payments, a minimum of the following:
    a. 90% of the current year's tax liability.
    b. 100% of the prior year's tax liability if the taxpayer's AGI in the prior year is less than $150,000. If the taxpayer's prior year AGI is more than $150,000, the percentage for the prior year rule increases to 110%.
2. Estimated payments can be made on a quarterly basis: April 15, June 15, September 15 in the current year, and January 15 of the next calendar year.
3. No estimated tax penalty applies if the tax due after withholding or estimated payments is less than $1,000.
4. Form 2210 is used to calculate the failure to pay estimated tax penalty.

D. Accuracy-Related Penalties

1. A penalty can be assessed if negligence or any substantial understatement of income occurs.
2. Negligence can be defined as any failure to make a reasonable attempt to comply with the provisions of the Internal Revenue Code (IRC), including any careless, reckless, or intentional disregard for tax authority.
3. Substantial understatement occurs when the understatement is either more than 10% of the tax required to be shown on the return or $5,000 or more.
4. IRS can assess a penalty equal to 20% of the tax due when negligence or substantial understatement occurs.

E. Fraud Penalties

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1. The Internal Revenue Code (IRC) does not define fraud but one court, as explained on page 2-26 of the text, has defined it as intentional wrongdoing with the purpose of evading tax.
2. IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to fraud.
3. Criminal penalties can be assessed in addition to civil penalties.

F. Erroneous Claim for Refund or Credit Penalty

1. A 20% penalty could be assessed by the IRS on the disallowed amount of the claim if the claim for refund or credit of income filed is found to be excessive. An amount for a claim is classified as "excessive" if the claim amount exceeds the amount of the allowable claim.
2. This penalty does not apply if the fraud or the accuracy-related penalty has been assessed.

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Form **1040** Department of the Treasury–Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2016** OMB No. 1545-0074 IRS Use Only–Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning , ending See separate instructions.

Your first name and initial	Last name	Your social security number
Jose	Hernadez	412-34-5670
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Dora	Hernadez	412-34-5671

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
32010 Lake Street

Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Atlanta, GA 30294

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. [X] You [X] Spouse

Filing Status

Check only one box.

1 [ ] Single
2 [X] Married filing jointly (even if only one had income)
3 [ ] Married filing separately. Enter spouse's SSN above and full name here. ▶
4 [ ] Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 [ ] Qualifying widow(er) with dependent child

Exemptions

6a [X] **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b [X] **Spouse**

Boxes checked on 6a and 6b 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) X if child under age 17 qualifying for child tax credit (see instr.)
Adela Hernadez	412-34-5672	Daughter	X

If more than four dependents, see instructions and check here ▶ [ ]

No. of children on 6c who:
- lived with you 1
- did not live with you due to divorce or separation (see instructions) 0

Dependents on 6c not entered above 0

d Total number of exemptions claimed **Add numbers on lines above ▶** 3

DO NOT FILE

Income

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

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	76,800.
8a	**Taxable** interest. Attach Schedule B if required		8a	300.
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends	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	IRA distributions 15a	b Taxable amount	15b	
16a	Pensions and annuities 16a	b Taxable amount	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	Social security benefits 20a	b Taxable amount	20b	
21	Other income. List type and amount		21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	77,100.

Adjusted Gross Income

23	Educator expenses	23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
25	Health savings account deduction. Attach Form 8889	25		
26	Moving expenses. 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	Tuition and fees. Attach Form 8917	34		
35	Domestic production activities deduction. Attach Form 8903	35		
36	Add lines 23 through 35		36	0.
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37	77,100.

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Tax and Credits

38	Amount from line 37 (adjusted gross income)		38	77,100.
39a	Check if: ☐ **You** were born before January 2, 1952, ☐ Blind. ☐ **Spouse** was born before January 2, 1952, ☐ Blind.	Total boxes checked ▶ 39a 0		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶	39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)		40	12,600.
41	Subtract line 40 from line 38		41	64,500.
42	**Exemptions.** If line 38 is $155,650 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions.		42	12,150.
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43	52,350.
44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐		44	6,929.
45	**Alternative minimum tax** (see instructions). Attach Form 6251		45	
46	Excess advance premium tax credit repayment. Attach Form 8962		46	
47	Add lines 44, 45, and 46 ▶		47	6,929.
48	Foreign tax credit. Attach Form 1116 if required	48		
49	Credit for child and dependent care expenses. Attach Form 2441.	49		
50	Education credits from Form 8863, line 19	50		
51	Retirement savings contributions credit. Attach Form 8880	51		
52	Child tax credit. Attach Schedule 8812, if required	52	1,000.	
53	Residential energy credits. Attach Form 5695	53		
54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	54		
55	Add lines 48 through 54. These are your **total credits**		55	1,000.
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶		56	5,929.

Standard Deduction for-
- People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others: Single or Married filing separately, $6,300
- Married filing jointly or Qualifying widow(er), $12,600
- Head of household, $9,300

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	
58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☒	61	
62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your **total tax** ▶	63	5,929.

DO NOT FILE

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	9,810.	
65	2016 estimated tax payments and amount applied from 2015 return	65		
66a	**Earned income credit (EIC)** NO	66a		
b	Nontaxable combat pay election. 66b			
67	Additional child tax credit. Attach Schedule 8812	67		
68	American opportunity credit from Form 8863, line 8	68		
69	Net premium tax credit. Attach Form 8962	69		
70	Amount paid with request for extension to file	70		
71	Excess social security and tier 1 RRTA tax withheld	71		
72	Credit for federal tax on fuels. Attach Form 4136	72		
73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	73		
74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶		74	9,810.

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**		75	3,881.
76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐		76a	3,881.
b	Routing number ▶ c Type: ☐ Checking ☐ Savings			
d	Account number			
77	Amount of line 75 you want **applied to your 2017 estimated tax** ▶	77		

Direct deposit? See instructions.

Amount You Owe

78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶		78	0.
79	Estimated tax penalty (see instructions)	79		

Third Party Designee

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

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

Sign Here

Joint return? See instr. 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	Daytime phone number
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

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Samuel Roebuck				
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

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Form **1040** Department of the Treasury–Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2016** OMB No. 1545-0074 IRS Use Only–Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning , ending See separate instructions.

Your first name and initial	Last name	Your social security number
Marie	Lincoln	412-34-5670
If a joint return, spouse's first name and initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
4110 N.E. 13th

▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Miami, FL 33127

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. [X] You [ ] Spouse

Filing Status

Check only one box.

1 [ ] Single
2 [ ] Married filing jointly (even if only one had income)
3 [ ] Married filing separately. Enter spouse's SSN above and full name here. ▶
4 [X] Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ Steven Lincoln
5 [ ] Qualifying widow(er) with dependent child

Exemptions

6a [X] **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b [ ] **Spouse**

Boxes checked on 6a and 6b 1

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) X if child under age 17 qualifying for child tax credit (see instr.)
Steven Lincoln	412-34-5672	Son	[X]
			[ ]
			[ ]
			[ ]

If more than four dependents, see instructions and check here ▶ [ ]

No. of children on 6c who:
● **lived with you** 1
● **did not live with you due to divorce or separation (see instructions)** 0

Dependents on 6c not entered above 0

d Total number of exemptions claimed **Add numbers on lines above ▶** 2

DO NOT FILE

Income

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

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	43,600.
8a	**Taxable** interest. Attach Schedule B if required		8a	500.
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends	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	IRA distributions 15a	b Taxable amount	15b	
16a	Pensions and annuities 16a	b Taxable amount	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	Social security benefits 20a	b Taxable amount	20b	
21	Other income. List type and amount		21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	44,100.

Adjusted Gross Income

23	Educator expenses	23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
25	Health savings account deduction. Attach Form 8889	25		
26	Moving expenses. 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	Tuition and fees. Attach Form 8917	34		
35	Domestic production activities deduction. Attach Form 8903	35		
36	Add lines 23 through 35		36	0.
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37	44,100.

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Tax and Credits

38	Amount from line 37 (adjusted gross income)		38	44,100.
39a	Check if: ☐ **You** were born before January 2, 1952, ☐ Blind. ☐ **Spouse** was born before January 2, 1952, ☐ Blind.	**Total boxes checked** ▶ 39a 0		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶	39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)		40	9,300.
41	Subtract line 40 from line 38		41	34,800.
42	**Exemptions.** If line 38 is $155,650 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions.		42	8,100.
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43	26,700.
44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐		44	3,346.
45	**Alternative minimum tax** (see instructions). Attach Form 6251		45	
46	Excess advance premium tax credit repayment. Attach Form 8962		46	
47	Add lines 44, 45, and 46 ▶		47	3,346.
48	Foreign tax credit. Attach Form 1116 if required	48		
49	Credit for child and dependent care expenses. Attach Form 2441.	49		
50	Education credits from Form 8863, line 19	50		
51	Retirement savings contributions credit. Attach Form 8880	51		
52	Child tax credit. Attach Schedule 8812, if required	52	1,000.	
53	Residential energy credits. Attach Form 5695	53		
54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	54		
55	Add lines 48 through 54. These are your **total credits**		55	1,000.
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶		56	2,346.

Standard Deduction for-

- People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others: Single or Married filing separately, $6,300
- Married filing jointly or Qualifying widow(er), $12,600
- Head of household, $9,300

Other Taxes

57	Self-employment tax. Attach Schedule SE	57	
58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
60a	Household employment taxes from Schedule H	60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☒	61	
62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
63	Add lines 56 through 62. This is your **total tax** ▶	63	2,346.

DO NOT FILE

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	4,540.	
65	2016 estimated tax payments and amount applied from 2015 return	65		
66a	**Earned income credit (EIC)** NO	66a		
b	Nontaxable combat pay election. 66b			
67	Additional child tax credit. Attach Schedule 8812	67		
68	American opportunity credit from Form 8863, line 8	68		
69	Net premium tax credit. Attach Form 8962	69		
70	Amount paid with request for extension to file	70		
71	Excess social security and tier 1 RRTA tax withheld	71		
72	Credit for federal tax on fuels. Attach Form 4136	72		
73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	73		
74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶		74	4,540.

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75	2,194.
76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	76a	2,194.
b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
d	Account number		
77	Amount of line 75 you want **applied to your 2017 estimated tax** ▶ 77		

Direct deposit? See instructions.

Amount You Owe

78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	0.
79	Estimated tax penalty (see instructions) 79		

Third Party Designee

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

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

Sign Here

Joint return? See instr. 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	Daytime phone number
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

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Samuel Roebuck				
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

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Form **1040** Department of the Treasury–Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2016** OMB No. 1545-0074 IRS Use Only–Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2016, or other tax year beginning , ending See separate instructions.

Your first name and initial	Last name	Your social security number
Margaret	O'Hara	412-34-5670
If a joint return, spouse's first name and initial	Last name	Spouse's social security number

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

979 Adams Street

Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Jacksonville, FL 32202

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

1 ☒ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**

Boxes checked on 6a and 6b 1

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) X if child under age 17 qualifying for child tax credit (see instr.)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
- **lived with you** 0
- **did not live with you due to divorce or separation (see instructions)** 0

Dependents on 6c not entered above 0

d Total number of exemptions claimed **Add numbers on lines above ▶** 1

DO NOT FILE

Income

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

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	38,000.
8a	**Taxable** interest. Attach Schedule B if required	8a	
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b		
9a	Ordinary dividends. Attach Schedule B if required	9a	
b	Qualified dividends — 9b		
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	24,000.
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	IRA distributions — 15a — b Taxable amount	15b	
16a	Pensions and annuities — 16a — b Taxable amount	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	Social security benefits — 20a — b Taxable amount	20b	
21	Other income. List type and amount	21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	62,000.

Adjusted Gross Income

23	Educator expenses — 23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ — 24		
25	Health savings account deduction. Attach Form 8889 — 25		
26	Moving expenses. 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	Tuition and fees. Attach Form 8917 — 34		
35	Domestic production activities deduction. Attach Form 8903 — 35		
36	Add lines 23 through 35	36	0.
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37	62,000.

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Tax and Credits

38	Amount from line 37 (adjusted gross income)		38	62,000.
39a	Check if: ☐ **You** were born before January 2, 1952, ☐ Blind. ☐ **Spouse** was born before January 2, 1952, ☐ Blind.	Total boxes checked ▶ 39a 0		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶	39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)		40	6,300.
41	Subtract line 40 from line 38		41	55,700.
42	**Exemptions.** If line 38 is $155,650 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions.		42	4,050.
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43	51,650.
44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐		44	8,690.
45	**Alternative minimum tax** (see instructions). Attach Form 6251		45	
46	Excess advance premium tax credit repayment. Attach Form 8962		46	
47	Add lines 44, 45, and 46 ▶		47	8,690.
48	Foreign tax credit. Attach Form 1116 if required	48		
49	Credit for child and dependent care expenses. Attach Form 2441.	49		
50	Education credits from Form 8863, line 19	50		
51	Retirement savings contributions credit. Attach Form 8880	51		
52	Child tax credit. Attach Schedule 8812, if required	52		
53	Residential energy credits. Attach Form 5695	53		
54	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	54		
55	Add lines 48 through 54. These are your **total credits**		55	0.
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶		56	8,690.

Standard Deduction for-

- People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others: Single or Married filing separately, $6,300
- Married filing jointly or Qualifying widow(er), $12,600
- Head of household, $9,300

Other Taxes

DO NOT FILE

57	Self-employment tax. Attach Schedule SE		57	
58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919		58	
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required		59	
60a	Household employment taxes from Schedule H		60a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required		60b	
61	Health care: individual responsibility (see instructions) Full-year coverage ☐		61	
62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)		62	
63	Add lines 56 through 62. This is your **total tax** ▶		63	8,690.

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	9,500.	
65	2016 estimated tax payments and amount applied from 2015 return	65		
66a	**Earned income credit (EIC)** NO	66a		
b	Nontaxable combat pay election. 66b			
67	Additional child tax credit. Attach Schedule 8812	67		
68	American opportunity credit from Form 8863, line 8	68		
69	Net premium tax credit. Attach Form 8962	69		
70	Amount paid with request for extension to file	70		
71	Excess social security and tier 1 RRTA tax withheld	71		
72	Credit for federal tax on fuels. Attach Form 4136	72		
73	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐	73		
74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶		74	9,500.

Refund

75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**		75	810.
76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐		76a	810.
b	Routing number ▶ c Type: ☐ Checking ☐ Savings			
d	Account number			
77	Amount of line 75 you want **applied to your 2017 estimated tax** ▶ 77			

Direct deposit? See instructions.

Amount You Owe

78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶		78	0.
79	Estimated tax penalty (see instructions) 79			

Third Party Designee

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

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

Sign Here

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

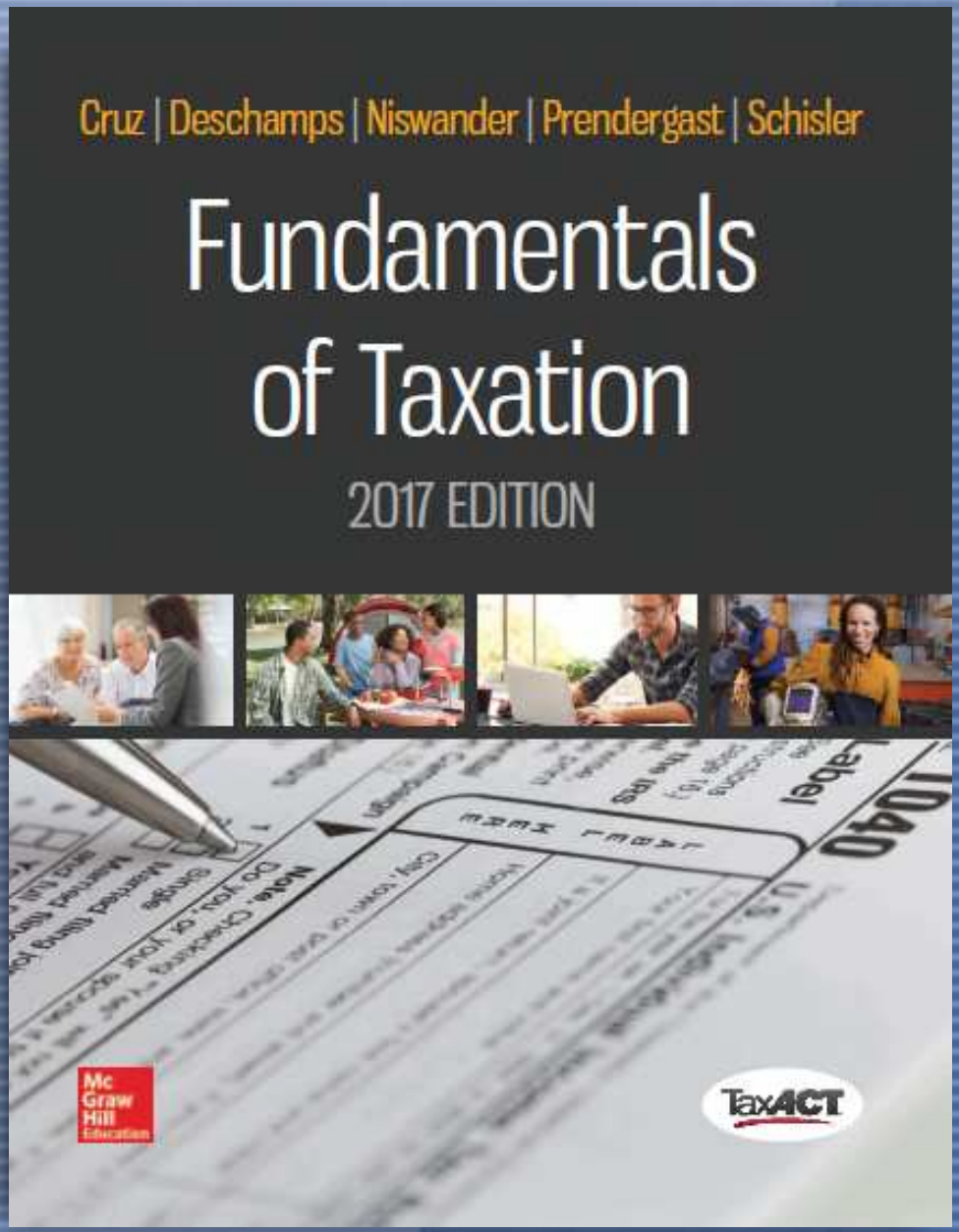
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
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

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Samuel Roebuck				
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

Fundamentals of Taxation 2017 Edition 10th edition Cruz Solutions Manual



Chapter 2

Expanded Tax Formula, Forms 1040 and 1040A, and Basic Concepts

"Taxes: Of life's two certainties, the only one for which you can get an automatic extension."
-- Author Unknown

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LO #1 The Expanded Tax Formula and the Major Sections of Form 1040A and Form 1040

- The Tax Return
  - Forms 1040A and 1040 are more complex than the 1040EZ
  - A taxpayer must always use the proper form
- Adjusted Gross Income (AGI)
  - Gross income minus a list of permitted deductions
  - Many deductions and credits are based on AGI

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LO #1 The Expanded Tax Formula and the Major Sections of Form 1040A and Form 1040

- The Expanded Tax Formula

Gross Income(GI)
- Permitted Deductions from Gross Income

= Adjusted Gross Income (AGI)
- Standard Deduction or Itemized Deductions
- Personal and Dependency Exemptions

= Taxable Income (TI)
x by Appropriate Tax Rates

= Tax Liability
- Tax Credits
+ Other Taxes
- Tax Payments and Refundable Credits

= Tax Refund or Tax Due with Return

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LO #1 The Expanded Tax Formula and the Major Sections of Form 1040A and Form 1040-

Concept Check 2-1

1. *When preparing a tax return, you should always use Form 1040. True or False?*

False

2. *The concept of Adjusted Gross Income (AGI) is important because many deductions and credits reported on the tax return are computed based on the amount shown as AGI? True or False?*

True

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LO #2 How to Determine the Proper Filing Status

- There are five filing statuses:
  - Single
    - Not married as of the last day of the year
  - Married Filing Jointly (MFJ)
    - Must be legally married on the last day of the year
      - The marital status of a couple is determined under the laws of the state in which they reside
    - It does not matter if only one has earned income

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LO #2 How to Determine the Proper Filing Status

- Married Filing Separately (MFS)
  - Must be married but elect to file separately
  - The standard deduction can be taken only if both make the same selection
  - Must show the social security number of the other spouse on the taxpayer's return
  - Only in unusual circumstances is it advantageous for a married couple to file MFS

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LO #2 How to Determine the Proper Filing Status

- Head of Household
  - Must be unmarried at the end of the year
    - A married taxpayer living apart from the spouse during the last six months of the year might qualify as unmarried
  - Must be a U.S. citizen or resident
  - Must maintain a household for a qualifying person for more than half the year
    - Exception: Parents can live in a separate household

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LO #2 How to Determine the Proper Filing Status

- Qualifying Widow(er) with Dependent Child
  - Must be eligible to file a joint return the year the spouse died
  - Must be unmarried
  - Must pay for more than half the costs of a household that is the principal place of residence of the taxpayer and child for the entire year
    - Exception: temporary absences are permitted

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LO #2 How to Determine the Proper Filing Status-Concept Check 2-2

1. *Even though you are in the process of getting a divorce, you can file as married filing jointly. True or False?*

True

2. *The social security of the taxpayer's spouse must be shown on the taxpayer's tax return when filing as married filing separately. True or False?*

True

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LO #2 How to Determine the Proper Filing Status- Concept Check 2-2

3. *A surviving spouse who qualified as married filing jointly when the spouse died can file as a qualifying widow(er) for the next two years as long as the surviving spouse pays for more than half the cost of keeping up a household and does not remarry. True or False?*

False

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LO #3 The Calculation of Personal Exemptions

- Personal Exemptions
  - Are for the taxpayer and spouse
  - Are subject to annual adjustment for inflation
  - Are not allowed on a taxpayer's return if he or she can be claimed as a dependent on another return
- Personal Exemption Amount for 2016
  - $4,050
    - For 2016, the exemption amount phases out when taxpayers reach a certain level of AGI

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LO #3 The Calculation of Personal Exemptions-Concept Check 2-3

1. *If you file a tax return with your spouse, you can claim a total of $8,100 for personal exemptions. True or False?*

True

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LO #4 The Calculation of Dependency Exemptions

- The Dependent must be a qualifying child or relative and meet three general tests:
  - Dependent taxpayer test
    - If the dependent can be claimed by someone else, then the taxpayer cannot claim this person as a dependent
  - Joint return test
    - The person claimed as a dependent cannot file a joint return with his or her spouse, unless a return is filed only to claim a refund and there is no tax liability on the return

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LO #4 The Calculation of Dependency Exemptions

- Citizen or resident test
  - The dependent must meet one of the following:
    - be a U.S. citizen, resident, or national
    - be resident of Canada or Mexico
    - be an adopted child of the taxpayer if the child is a member of the taxpayer's household all year and the taxpayer is a U.S. citizen or national

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LO #4 The Calculation of Dependency Exemptions

- A Qualifying Child must meet five specific tests:
  - Relationship test
  - Age test
  - Residency test
  - Support test
  - Special test for qualifying child of more than one taxpayer

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LO #4 The Calculation of Dependency Exemptions-Concept Check 2-4

1. What are the five specific tests you need to meet to claim someone as a qualifying child?

Relationship test

Age test

Residency test

Support test

Special test for qualifying child of more than one taxpayer

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LO #4 The Calculation of Dependency Exemptions - Concept Check 2-4

2. To meet the age test, a child who is not disabled must be_____, or _____ if a full time student

Under 19 years of age, or

under 24 years of age and a full time student.

Also, for years after 2008, the child must be younger than the person claiming the dependency.

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LO #4 The Calculation of Dependency Exemptions

- A Qualifying Relative must meet four specific tests:
  - *Not* a qualifying child test
  - Relationship or member of household test
  - Gross income test
  - Support test

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LO #4 The Calculation of Dependency Exemptions-Concept Check 2-5

1. *You must meet one of these four tests to be a qualifying relative: Not a qualifying child test, relationship or member of household test, gross income test and support test. True or False?*

False

2. *A qualifying relative can earn up to $6,300 for the year 2016. True or False?*

False

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LO #4 The Calculation of Dependency Exemptions

- The Dependency Exemption
  - $4,050 per dependent

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LO #5 How to Determine the Standard Deduction

- The Standard Deduction for 2016 is:
  - Single $ 6,300
  - Married Filing Jointly $12,600
  - Married Filing Separately $ 6,300
  - Head of Household $ 9,300
  - Qualifying Widow(er) $12,600

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LO #5 How to Determine the Standard Deduction

- The Standard Deduction:
  - Increases for people who are age 65 or older or blind
  - Is limited for dependent taxpayers to the higher of $1,050, or the taxpayer's earned income plus $350 but cannot be over the basic standard deduction

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LO #5 How to Determine the Standard Deduction

- Additional Standard Deductions for Taxpayers who are 65 or older or blind
  - Single $ 1,550
  - Married Filing Jointly $ 1,250
  - Married Filing Separately $ 1,250
  - Head of Household $ 1,550
  - Qualifying Widow(er) $ 1,250

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LO #5 How to Determine the Standard Deduction-Concept Check 2-6

1. What is the amount of the standard deduction in each of the following cases:

- *Taxpayer is single, 42 years of age, and blind ____*

$7,850 ($6,300 + $1,550)

- *Taxpayer is head of household, 37 years of age, and not blind ____*

$9,300

- *Taxpayers are married filing jointly, the husband is 67 and the wife is 61 years of age, and neither is blind____*

$13,850 ($12,600 + $1,250)

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LO #6 The Amount of Tax Due to the Internal Revenue Service (IRS)

- Amount of Tax Liability
  - The tax liability is computed by using the tax tables or the tax rate schedules
- Tax Payments and Credits Reduce the Tax Liability
  - Withholding by the employer and estimated payments sent to IRS
  - Tax credits
    - Nonrefundable
    - Refundable

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LO #6 The Amount of Tax Due to the Internal Revenue Service (IRS)

- Tax Refund or Amount Due with Return
  - Excess payment results in a refund
  - Excess remaining tax liability means an amount is owed to IRS

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LO #6 The Amount of Tax Due to the Internal Revenue Service (IRS)-Concept Check 2-7

1. Use the tables in the back of the text to determine the tax amount for the following situations

- *Single taxpayer with a taxable income of $34,640*

  ____

$4,730

- *Married taxpayers filing jointly with a taxable income of $67,706* ____

$9,231

2. What is the limit on the FICA (social security) amount for 2016? ____

$118,500

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LO #7 Interest and Penalties the IRS Can Assess

- Interest Charged on Assessments
  - The rate charged is the federal short-term rate plus 3 percentage points
  - Examples of some rates for different periods
    - Apr. 1, 2016 to Sept. 30, 2016 4%
    - July 1, 2015 to Mar. 31, 2016 3%
    - Oct. 1, 2011 to June 30, 2015 3%
    - April 1, 2011 to Sept. 30, 2011 4%
    - Jan. 1, 2011 to March 31, 2011 3%

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LO #7 Interest and Penalties the IRS Can Assess

- Penalties
  - Failure to file a tax return
    - 5 percent per month or fraction of a month, not to exceed 25 percent
      - Any income tax return not filed within 60 days of its due date is subject to a minimum penalty of the lesser of $135 or the amount of tax required on the return
  - Failure to pay tax penalty
    - .5 percent per month or fraction of a month, not to exceed 25 percent
  - Maximum amount is 5 percent per month or fraction of a month, not to exceed 25 percent when both penalties apply to the same situation

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LO #7 Interest and Penalties the IRS Can Assess

- Penalties (con't)
  - Failure to pay estimated income tax penalty
    - Applies if taxpayer fails to pay during the year a minimum of: 90 percent of the current year tax liability, or 100 percent of the prior year's tax liability if the taxpayer's AGI in the prior year is less than $150,000.
  - Accuracy-related penalty
    - Applies when there is negligence or any substantial understatement
    - The rate is 20 percent of the tax due

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LO #7 Interest and Penalties the IRS Can Assess

- Penalties (con't)
  - Fraud penalty
    - Applies to the understatement of tax that is attributable to fraud
    - The rate is 75 percent
  - Erroneous claim for refund or credit
    - The rate is 20 percent on the disallowed amount of the claim if the claim for refund or credit of income filed is found to be excessive.
    - Not applicable if the fraud or the accuracy-related penalty has been assessed

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LO #7 Interest and Penalties the IRS Can Assess-Concept Check 2-8

1. A taxpayer filed an automatic extension before April 15 but sent no money to the IRS. He then filed his return by June 2 and paid the amount due of $3,000. What are the amounts for the failure to file a tax return penalty and the failure to pay penalty?

Failure to file does not apply but failure to pay is $30 = ($3,000 x .5%)2

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LO #7 Interest and Penalties the IRS Can Assess-Concept Check 2-8

2. Fraud on a tax return can also lead to criminal charges. True or False?

True

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