**Individual Tax Return Problem -- Appendix A (Benchmark)**

Download the appropriate tax forms from the IRS website ([www.irs.gov)](http://www.irs.gov/). Make sure you download the forms for the tax year in your assigned problem in Appendix A. You can find prior year forms by entering “2xxx Forms” in the search box. Include the necessary supporting schedules and supporting documentation.

Examples of how the various tax documents and information are used to complete the forms were covered in the modules 1-5 readings.

If you have the ability, create one *.pdf* file with all of the tax forms in the order they should appear in a submitted tax return. If you do not, attach the files in the assignment drop-box in the order they should appear in a submitted tax return.

THE SCHNAPPAUF FAMILY

In 2012, Bill (53) & Joyce (51) Schnappauf live in Wakefield, R.I. Bill is a district sales manager for USC Equipment Corporation, a Rhode Island firm that manufactures and distributes gaming equipment. Joyce is a self-employed author of children’s books. They have three children, Will (21), Dan (19), and Tom (16).

In February 2013, they provide the following basic information for preparing their 2012 federal income tax return:

1. They use the cash method of accounting and file their return on a calendar-year basis.

2. Unless otherwise stated, assume that they want to minimize the current year’s tax liability. That is, they would like to defer income when possible and take the largest deductions possible, a practice they have followed in the past.

3. Joyce’s Social Security # 371-42-5207.

4. Bill’s Social Security # 150-52-0546.

5. Will’s Social Security # 372-46-2611.

6. Dan’s Social Security # 377-42-3411.

7. Tom’s Social Security # 375-49-6511.

8. They do not have any foreign bank accounts or foreign trusts.

9. Their address is 27 Northup Street, Wakefield, R.I. (02879).

10. They do not wish to contribute to the presidential election campaign.

PHASE I—CHAPTERS 1–4

The first phase of the tax return problem is designed to introduce you to some of the tax forms and the supporting documentation (Forms W-2, 1099-INT, etc.) needed to complete a basic tax return. The first four chapters focus on the income aspects of individual taxation. Accordingly, this phase of the tax return focuses on the basic income concepts.

1. Bill’s W-2 is provided (Exhibit A-1). The 2012 W-2 includes his salary ($94,000), bonus ($47,000), and income from group-term life insurance coverage in excess of $50,000 ($121.44), and is reduced by his 7 percent contribution ($6,580) to USC’s qualified pension plan. The company matches Bill’s contribution to the plan.
2. They receive two 1099-INTs for interest (Exhibits A-2 and A-3), two 1099-DIVs for dividends (Exhibits A-4 and A-5), and a combined interest and dividend statement (Exhibit A-6).
3. Joyce and her brother, Bob, are co-owners of, and active participants in, a furniture restoration business. Joyce owns 30 percent, and Bob owns 70 percent of the business. The business was formed as an S corporation in 2004. During 2012, the company pays $5,000 in dividends. The basis of Joyce’s stock is $27,000.
4. They receive a 2011 federal income tax refund of $1,342 on May 12, 2012. On May 15, 2012, they receive their income tax refund from the state of Rhode Island. In January 2013, the state mails them a Form 1099-G (Exhibit A-7). Their total itemized deductions in 2011 were $22,854.
5. During 2012, Joyce is the lucky ninety-third caller to a local radio station and wins $500 in cash and a stereo system. Despite repeated calls to the radio station, she has not received a Form 1099—MISC. In announcing the prize, the radio station host said that the manufacturer’s suggested retail price for the stereo system is $625. However, Joyce has a catalog from Supersonic Electronics that advertises the system for $520.
6. They receive a Form W-2G (Exhibit A-8) for their winnings at the Yardley Casino in Connecticut.
7. On June 26, 2012, Bill receives a check for $17,400 from the United Insurance Corporation. Though he was unaware of it, he was the designated beneficiary of an insurance policy on the life of his uncle. The policy had a maturity value of $16,980, and the letter from the company stated that his uncle had paid premiums on the policy of $2,950 (Exhibit A-9).
8. Joyce is active in the school PTO. During the year, she receives an award for outstanding service to the organization. She receives a plaque and two $75 gift certificates that were donated to the PTO by local merchants.
9. To complete phase I, you will need Form 1040, Schedule B, and Schedule D.

INSTRUCTIONS: If you are using tax software to prepare the tax return or are not completing phases II and III of the problem, ignore the instructions that follow. If you are preparing the return manually, you cannot complete some of the forms used in phase I until you receive additional information provided in phase II or phase III. Therefore, as a general rule, you should only post the information to the appropriate form and not compute totals for that form. The following specific instructions will assist you in preparing Part I of the return.

a. The only form that can be totaled is Schedule B.

b. Only post the appropriate information to Schedule D. Do not total any columns.

More information is provided in phase III of the tax return problem.

c. Do not calculate total income or adjusted gross income on page 1 of Form 1040.

d. Post the appropriate information on page 2 of Form 1040, but do not total this page, compute the federal tax liability, or determine the refund or balance due.

PREPARATION AID: Tax forms and instructions can be downloaded from the IRS’s home page (http://www.irs.treas.gov). You can also download IRS Publication 17, which is a useful guide in preparing the tax return.

PHASE II—CHAPTERS 5–8

This is the second phase of the tax return problem you began at the end of Chapter 4. This phase of the tax return incorporates the material from Chapters 5, 6, 7, and 8 by providing you with information concerning their deductions for 2012. They provide you with the following information.

1. Joyce writes children’s books for a variety of publishers. She has been self-employed since 2004. As a freelance writer, Joyce incurs costs associated with preparing a manuscript for which she does not yet have a contract. During the year, Joyce makes 4 business trips, each 3 days long, to meet with various publishers. For shorter trips that are closer to home, she either drives or takes the train and returns the same day. On December 10, 2012, Joyce receives an advance (see below) on her next book. Under the contract, Joyce is scheduled to begin work on the book on February 1, 2013, and must have it completed by November 30, 2013. Their home has 2 telephones. Joyce has a separate phone number for her business. The information on Joyce’s business is listed below.

Royalties (Exhibits A-10 to A-12)

Publisher’s advance $4,500

Office supplies 180

Train tickets 640

Airfare (4 trips) 1,800

Lodging (12 nights) 2,120

Meals (12 days) 510

Telephone ($28 monthly fee per phone line) 672

Internet provider 416

Cell phone, including business calls 876

Business-related postage 108

Printing/copying 217

Legal fees 1,100

Interest on auto 374

1. On January 2, 2012, Joyce purchases a new car to use in her business. The car, a Volster, costs $15,200. Joyce pays $2,200 in cash and finances the balance through the dealer. She uses the car 40 percent of the time for business and drives a total of 10,500 miles during 2012. The total expenses for the 10,500 miles driven are: repairs and maintenance, $320; insurance, $735; and gasoline, $1,845. The correct depreciation expense for 2012 is $608 ($15,200 × 40% × 10%).
2. Joyce’s office is located in a separate room in the house and occupies 375 square feet. The total square footage of the house is 2,500. They purchased the home on July 7, 1998, for $70,000. The local practice is to allocate 10 percent of the purchase price to land. The depreciation percentage for the office is 0.02564. When Joyce started her business on January 1, 2004, the fair market value of the house was $108,000. The total household expenses for 2012 are as follows:

Heat $2,170

Insurance 1,425

Electricity 690

Repairs to kitchen 2,750

Cleaning 1,510

1. Bill began work on his MBA at Denville University. He enrolled in two courses, and paid $2,650 in tuition and $180 for books.
2. Bill and Joyce each contribute the maximum to their respective IRA accounts in 2012. The IRA account is Joyce’s only retirement vehicle. Bill’s basis in his IRA before the current year’s contribution is $26,000, and Joyce’s basis is $36,000. The fair market value of Bill’s IRA on 12/31/12 is $41,720, and the fair market value of Joyce’s IRA is $57,100. In addition, Bill and Joyce contributed $2,000 to a Coverdell Education Savings Account for Thomas.
3. On June 15, 2012, their 2011 station wagon is totaled in Hurricane Ann. The car was purchased for $28,700 in November 2010. They receive a check for $21,200 from Zippy Insurance Company that represents the fair market value of the car minus a $750 deductible. On June 26, 2012, they replace the car with a 2012 station wagon. The new car costs $31,400, and they receive a rebate check from the car’s manufacturer for $2,500.
4. The hurricane also damages part of their house. A tree falls and makes a hole in the roof above the kitchen. Water damages the kitchen, causing the new dishwasher to short out, and it has to be replaced. In addition, the linoleum floor has to be replaced. The cost of fixing the hole in the roof is $1,000. The Schnappaufs receive $700 ($1,000 repair cost minus $300 deductible) to fix the roof. Information concerning the dishwasher and the floor is as follows:

Property Date Acquired Original Cost FMV Before FMV After Reimbursement

Dishwasher 3/30/12 $ 780 $ 780 $-0- $380

Floor 3/16/12 $1,500 $1,350 $-0- $850

1. They incur the following medical expenses (before considering the $700 reimbursement they receive from their health insurance policy):

Medical premiums $3,800

Doctors 1,200

Chiropractor 650

Dentist 1,900

Vet fees (family dog Sandy) 350

Prescription drugs 340

Over-the-counter drugs (aspirin, cough syrup) 175

In addition, Bill purchases an Exsoaligner machine for $700. The machine was recommended by the chiropractor to help strengthen Bill’s back muscles.

9. They pay the following property taxes:

Wakefield house $7,700

Family car used by Bill (ad valorem) 480

Joyce’s car (ad valorem) 510

10. They receive two Form 1098s for the cost of interest on bank loans.

They also pay interest on their personal credit cards.

Jefferson Trust 1098 (Exhibit A-13—Wakefield house)

Jefferson Trust 1098 (Exhibit A-14—Home equity)

Dempsey’s Department Store revolving account $191

Brooks’ Bargain Basement revolving account 67

Jefferson Trust bank card 212

The proceeds from the home equity loan were used to renovate their kitchen and pay for Tom’s tuition to private school. The interest on the portion of the loan used for private school tuition is $640.

11. Bill and Joyce make cash charitable contributions to the United Fund Campaign ($1,750), Adelade University ($300), Tremon University ($2,000), and Christ the King Church in Kingston, R.I. ($2,600). They have documentation to verify their cash contributions. They also donate property to the Salvation Army on July 15, 2012:

Property FMV Original Cost Date Acquired

Antique table $515 $225 1/4/01

Dishwasher 150 700 5/6/05

Sofa bed 160 800 13/14/07

Men’s suits (2) 140 540 Various

The Salvation Army acknowledges that these amounts represent the fair market value of the donated items.

12. They incur the following expenses:

Type Amount

2011 tax preparation fee (paid in 2012) $ 900

Safety deposit box 35

Investment journals 405

Investment advice 875

Business publications (Bill) 550

Gambling losses 2,640

13. Because Joyce is self-employed, they make federal estimated tax payments of $225 per quarter on April 15, 2012, June 15, 2012, September 15, 2012, and January 15, 2013. They also make estimated payments of $140 per quarter to the state of Rhode Island on April 15, 2012, June 15, 2012, September 15, 2012, and December 31, 2012.

14. Bill and Joyce paid $6,150 in tuition, $625 for books, and $7,630 for room and board for Will, a junior, to attend Springbrook State University. They also paid $15,000 in tuition, $515 in books, and $8,130 in room and board for Dan, a freshman at Prescott College.

15. Other information:

a. Joyce’s business is named Queensbridge Books, and her employer I.D. number is 05-3456345.

b. The Salvation Army’s address is 15 High Street, Wakefield, R.I. 02879.

c. To complete phase II, you will need the following additional forms: Schedule A, Schedule C, Schedule SE, and Forms 4562, 4684, 8283, 8606, 8829, and 8863.

INSTRUCTIONS: If you are using tax software to prepare the tax return or are not completing phase III of the problem, ignore the instructions that follow.

As in phase I, there are forms in phase II that cannot be completed without additional information which is provided in phase III. Therefore, as a general rule, you should only post the information to the appropriate form and not compute totals for that form. The following specific instructions will assist you in preparing Part II of the return.

a. The only form that can be completed at the end of phase II is Form 8283.

b. Do not calculate total income or adjusted gross income on page 1 of Form 1040.

c. Post the appropriate information on page 2 of Form 1040, but do not total this page, compute the federal tax liability, or determine the refund or balance due.

d. Do not calculate the total itemized deductions on Schedule A.

e. Do not total Joyce’s expenses on Schedule C.

f. Do not compute Joyce’s self-employment tax on Schedule SE.

g. Do not complete the summary section of Form 4562.

h. Complete Form 4684 only to the point at which adjusted gross income is requested.

i. On Form 8829, complete Part I, and only post the appropriate indirect expenses. Do not calculate the allowable depreciation or the allowable home office deduction.

PHASE III—CHAPTERS 9–12

This is the third and final phase of the family’s tax return. This phase incorporates the material in Chapters 9, 10, 11, and 12 requires you to analyze the various types of property transactions discussed in those chapters.

1. On February 11, 2012, Bill inherits his father’s summer home. The house, located in South Lake Tahoe, Nevada, has a fair market value of $496,000 at the date of his father’s death. His parents had purchased the house in 1974 for $127,000 and made $59,000 worth of capital improvements to it. Twenty percent of the total value of the property is attributable to the land. Because Bill and Joyce ultimately would like to use the property as a vacation home, they decide to rent it out. Bill actively participates in the management of the property. The property is first advertised for rent on March 1, 2012, but is not rented until April 15, 2012. Bill provides the following income and expense information for the Lake Tahoe rental property:

Rent $18,000

Repairs 4,720

Management fee 2,750

Property taxes 9,375

Insurance 1,900

In addition, Bill buys a new stove for $1,240 and a new refrigerator for $970 on March 20, 2012.

2. They receive Form 1099-B (Exhibit A-15) from Pebble Beach Investors for the sale of several securities. Details on the securities sales are provided below. The selling price listed is net of brokerage commissions and represents the amount they actually receive from the sale.

Stock Date Acquired Date Sold Sale Price Purchase Price

150 shares Pfizer Corporation 5/12/89 8/15/12 $ 6,000 $ \*

300 shares Texas Instruments 7/30/94 10/25/12 17,100 \*\*

50 shares Alcoa 6/10/06 10/23/12 525 1,800

25 shares Luminent 4/28/12 9/4/12 900 2,700

60 shares Textron 9/11/12 10/27/12 10,410 9,100

300 shares Hasbro 1/7/01 12/20/12 6,125 3,150

\*When Joyce graduated from college on May 12, 1989, her father gave her 150 shares of Pfizer Corporation stock that he had acquired on October 27, 1981, for $1,300. At the date of the gift, the fair market value of the stock was $1,800. In January 1998, Pfizer Corporation stock split 2 for 1.

\*\*The Schnappaufs acquired 500 shares of preferred stock in Texas Instruments for $7,810. Shortly after the purchase, they received a nontaxable 10% stock dividend.

3. On May 18, 2012, Joyce purchases a computer system for $2,560. She also buys a color printer/copier/fax machine for $560. All the equipment is used exclusively in her business.

4. On June 12, 2012, Joyce sells her old computer system for $355 and her printer for $110. She had acquired the computer system and printer on February 18, 2009, for $2,710 and $490, respectively. When they prepared their 2009 tax return, they elected to expense the computer and printer using Section 179. The computer system and the printer were used exclusively in her business.

5. Joyce receives a Schedule K-1 (Exhibit A-16) for her interest in the furniture restoration business.

6. Other information:

a. The rental property in Lake Tahoe is located at 100 Paraiso Drive, South Lake Tahoe (88197).

INSTRUCTIONS: To complete phase III, you need the following additional forms: Schedule E and Forms 4562 and 8582. You now have all the information necessary to complete the schedules that you did not finish in phases I and II.