

Comprehensive Tax Return Problems

APPENDIX C


INDIVIDUAL TAX RETURN PROBLEM 1

Required:

- Use the following information to complete Keith and Jennifer Hamilton's 2011 federal income tax return. If information is missing, use reasonable assumptions to fill in the gaps.
- Form 1040, supporting schedules, and instructions to the forms and schedules can be found at the IRS Web site (www.irs.gov).

Facts:

1. Keith Hamilton is employed as an airline pilot for Flyby Airlines in Las Vegas, NV. Jennifer is employed as a teacher's assistant at Small World Elementary School, in Henderson, NV. Keith and Jennifer live in a home they purchased this year. Keith and Jennifer have three children who lived with them all year, Joshua (17), Danielle (14), and Sara (10). Keith and Jennifer provided the following personal information:
 - Keith and Jennifer do not want to contribute to the presidential election campaign.
 - Keith and Jennifer do not claim itemized deductions.
 - Keith and Jennifer live at 3678 Blue Sky Drive, Henderson, NV 89052.
 - Keith's birthday is 10/12/1966 and his Social Security number is 535-22-4466.
 - Jennifer's birthday is 7/16/1969 and her Social Security number is 535-44-2255.
 - Joshua's birthday is 6/30/1994 and his Social Security number is 454-54-5454.
 - Danielle's birthday is 8/12/1997 and her Social Security number is 343-43-4343.
 - Sara's birthday is 5/13/2001 and her Social Security number is 232-32-3232.
2. Keith received the following Form W-2 for 2011 from Flyby Airlines.

a Employee's social security number 535-22-4466		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 91-0001002		1 Wages, tips, other compensation 193,645.00		2 Federal income tax withheld 38,500.00	
c Employer's name, address, and ZIP code Flyby Airlines 375 West Flight Blvd. Las Vegas, NV 89119		3 Social security wages 106,800.00		4 Social security tax withheld 4,485.60	
		5 Medicare wages and tips 208,645.00		6 Medicare tax withheld 3,025.35	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Keith Hamilton 3678 Blue Sky Drive Henderson, NV 89052		11 Nonqualified plans		12a See instructions for box 12 D 15,000	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
f Employee's address and ZIP code				12d	
15 State NV	Employer's state ID number 987654321	16 State wages, tips, etc. 193,645.00	17 State income tax 0.00	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement

2011

Department of the Treasury—Internal Revenue Service

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This information is being furnished to the Internal Revenue Service.

3. Jennifer received the following Form W-2 for 2011 from Small World Elementary School.

a Employee's social security number 535-44-2255		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 91-0001003		1 Wages, tips, other compensation 36,825		2 Federal income tax withheld 5,524.00	
c Employer's name, address, and ZIP code Small World Elementary School 333 Tiny Tot Lane Henderson, NV 89053		3 Social security wages 39,825		4 Social security tax withheld 1,672.65	
		5 Medicare wages and tips 39,825		6 Medicare tax withheld 577.46	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Jennifer Hamilton 3678 Blue Sky Drive Henderson, NV 89052		11 Nonqualified plans		12a See instructions for box 12 D 3,000	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
NV	123456789	36,825	0.00		
					20 Locality name

Form W-2 Wage and Tax Statement 2011 Department of the Treasury—Internal Revenue Service

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4. During 2011, Keith and Jennifer received \$550 in interest from Las Vegas city bonds, \$1,070 interest from U.S. Treasury bonds, and \$65 from their savings account at SCD Credit Union. Keith and Jennifer are joint owners of the Las Vegas city bonds and the U.S. Treasury bonds. They have a joint savings account at SCD Credit Union.
5. On January 21, 2011, Jennifer was involved in a car accident. Because the other driver was at fault, the other driver's insurance company paid Jennifer \$1,350 for medical expenses and \$300 for emotional distress. She received payment on March 15, 2011.
6. Keith's father died on November 15, 2010. Keith received a \$100,000 death benefit from his father's life insurance policy on February 8, 2011.
7. On February 15, 2011, Keith hurt his arm on a family skiing trip in Utah and was unable to fly for two weeks. He received \$4,000 for disability pay from his disability insurance policy. He received the check on March 2, 2011. The disability insurance policy premiums are paid for by Flyby Airlines as a fully taxable fringe benefit to Keith (the premiums paid on his behalf are included in Keith's compensation amount on his W-2). Flyby Airlines paid \$600 in premiums on this policy during 2011.
8. Jennifer's grandmother died on March 10, 2011, leaving Jennifer with an inheritance of \$30,000. (She received the inheritance on May 12, 2011.) Flyby Airlines had space available on its Long Island, NY, flight and provided Keith, Jennifer, and their three children with free flights so they could attend the funeral. The value of the airfare was \$5,284.
9. On April 1, 2011, Jennifer slipped in the Small World Elementary lunchroom, and injured her back. Jennifer received \$1,200 in worker's compensation benefits because her work-related injury caused her to miss two weeks of work. She also received a \$2,645 reimbursement for medical expenses from the health insurance company. Small World Elementary pays the premiums for Jennifer's health insurance policy as a nontaxable fringe benefit.

10. On May 17, 2011, Keith and Jennifer received a federal income tax refund of \$975 from their 2010 federal income tax return.
11. On June 5, 2011, Keith and Jennifer sold their home in Henderson, NV, for \$510,000 (net of commissions). Keith and Jennifer purchased the home eleven years ago for \$470,000. On July 12, 2011, they bought a new home for \$675,000.
12. On July 25, 2011, Keith's aunt Beatrice gave Keith \$18,000 because she wanted to let everyone know that Keith is her favorite nephew.
13. On September 29, 2011, Jennifer won an iPad valued at \$500 in a raffle at the annual fair held at Joshua's high school.

INDIVIDUAL TAX RETURN PROBLEM 3

Required:

- Use the following information to complete Rhonda Hill's 2011 federal income tax return. If information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS Web site (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Rhonda Hill (unmarried) is employed as an office manager at the main office of Carter and Associates CPA firm. Rhonda lives in a home she purchased 20 years ago. Rhonda's older cousin Mabel Wright lives with Rhonda in the home. Mabel is retired and receives \$2,400 of Social Security payments each year. Mabel is able to save this money because Rhonda provides all of Mabel's support. Rhonda also provided the following information:
 - Rhonda does not want to contribute to the presidential election campaign.
 - Rhonda lives at 1234 Blue Ridge Way, Tulsa, OK 74101.
 - Rhonda's birthday is 12/18/1957 and her Social Security number is 335-67-8910.
 - Mabel's birthday is 11/2/1944 and her Social Security number is 566-77-8899.
 - Rhonda does not have any foreign bank accounts or trusts.
2. Rhonda received a Form W-2 from Carter and Associates (her employer) that contained the following information:

• Line 1 Wages, tips, other compensation:	\$72,000
• Line 2 Federal income tax withheld:	9,300
• Line 3 Social Security wages:	72,000
• Line 4 Social Security tax withheld:	3,024
• Line 5 Medicare wages and tips:	72,000
• Line 6 Medicare tax withheld:	1,044
• Line 16 State wages, tips, etc.:	72,000
• Line 17 State income tax:	2,700
• Carter and Associates address is 1234 CPA Way Tulsa, OK 74101; its FEIN is 91:0001002; and its State ID number is 123456678	
3. Rhonda received \$250 in interest from Tulsa City bonds, \$120 interest from IBM bonds, and \$15 from her savings account at UCU Credit Union. She also received a \$460 dividend from Huggies Company and \$500 from Bicker Corporation. Both dividends are qualified dividends.
4. Rhonda sold 200 shares of DM stock for \$18 a share on June 15, 2011. She purchased the stock on December 12, 2006, for \$10 a share. She also sold 50 shares of RSA stock for \$15 a share on October 2, 2011. She purchased the stock for \$65 a share on February 2, 2011. Stock basis amounts have been reported to the IRS.
5. The following is a record of the medical expense that Rhonda paid for herself during the year. The amounts reported are amounts she paid in excess of insurance reimbursements.

Insurance premiums	\$900
Prescription medications	100
Over-the-counter medications	250
Doctor and dentist visits	485
Eyeglasses	300
Physical therapy	200
6. Rhonda paid \$2,800 in mortgage interest during the year to UCU credit union. She also paid \$1,200 in real property taxes during the year.
7. Rhonda contributed \$2,350 to Heavenly Church during the year. Heavenly Church's address is 1342 Religion Way, Tulsa, OK 74101.