CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 – Multiple Choice Questions

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

Group 2 – Problems

1. a. Excluded
   b. Included
   c. Included
   d. Included
   e. Excluded
   f. Included
   g. Included
   h. Excluded
   i. Excluded
   j. Excluded
   k. Included (LO 2.1)

2. The non-cash payment of a truck for services performed is includable income to Jane. The tax law states that gross income is "all income from whatever source derived." There is no exception in the law for non-cash items received in exchange for services. The amount of gross income is the market value on the date of the payment which is $6,000. Jane can probably also recognize the $800 loss on the sale of the truck since it was business property. (LO 2.1)

3. a. **$300**. Gross income includes "all income from whatever source derived." The value of the hair styling is income to Larry for the performance of services. There is no gross income exception in the tax law for "barter" income.
   b. **$300**. Gross income includes "all income from whatever source derived." The value of the tax return is income to Sheila for the performance of services. There is no gross income exception in the tax law for "barter" income. (LO 2.1)

4. Illegal income is still taxable since there is no exception excluding it in the tax code. When there is not an explicit exception, gross income is "all income from whatever source derived." (LO 2.1)

5. a. $61,700. Taxable wages are taken from Box 1.
   b. It would appear that Kristen made $3,500 of contributions toward her employer's 401(k) plan. The health care and group term life does not create a difference between Box 1 and wages taxable for Social Security and Medicare in Boxes 3 and 5. (LO 2.2)

6. None of the cost of the insurance or amounts paid by the insurance company for surgery or treatment are taxable to Skyler. These amounts are specifically excluded from taxable income under the tax law. (LO 2.3)

7. **$0**. Taxpayers may exclude the total amount received for payment or reimbursement of medical expenses. Premiums for health insurance paid by the taxpayer's employer are also excluded from the taxpayer's gross income. In addition, the $1,500 ($3,500 – $2,000) not paid by the insurance company is deductible as an itemized deduction on Ellen's return, subject to the medical expense deduction limitations. (LO 2.3)

8. a. No. The meals are furnished by the employer on the business premises of the employer during working hours because the employer limits the employee to short meal periods.
   b. No. The meals are furnished by the employer on the business premises of the employer during working hours because the taxpayer must be available for emergency calls.
   c. Yes. The meals are not furnished for the convenience of the employer. (LO 2.4)

9. **$4,850** = $850 + $4,000. The value of the airline tickets is excluded from gross income under the no additional cost services rule for employees and their families. The $30 of personal typing is excluded under the de minimis fringe benefits rule. The $850 worth of employee discount coupons for hotel rooms is included in gross income since the hotel division is a different line of business than that in which Linda is employed. The $4,000 tuition payment must be included in gross income since Richard is working on a graduate degree and not providing teaching or research activities. (LO 2.5)

10. Yes. Tom will be better off reducing his taxable income by $2,700 by using the health care flexible spending account. Since his income will be $2,700 less, he will pay less tax than he would otherwise. (LO 2.5)

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

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

13. SIMPLIFIED METHOD WORKSHEET

1)	Enter total amount received this year.		1) $ 7,000
2)	Enter cost in the plan at the annuity starting date.		2) $48,300
3)	Age at annuity starting date	*Enter*	
	55 and under	360	
	56–60	310	
	61–65	260	3) 210
	66–70	210	
	71 and older	160	
4)	Divide line 2 by line 3.		4) $ 230
5)	Multiply line 4 by the number of monthly payments this year. If the annuity starting date was before 1987, also enter this amount on line 8; and skip lines 6 and 7. Otherwise go to line 6.		5) $ 1,610
6)	Enter the amount, if any, recovered tax free in prior years		6) $ 0
7)	Subtract line 6 from line 2.		7) $48,300
8)	Enter the smaller of line 5 or 7.		8) $ 1,610
9)	Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero. (LO 2.7)		9) $ 5,390

14. **$61,000** = $100,000 – $27,000 – $12,000. Since the policy was transferred for valuable consideration, the proceeds are taxable to the extent that they exceed the sum of the cash value at the time of transfer plus the premiums paid. (LO 2.8)

15. **$500**. A beneficiary, must include the entire amount of interest received with respect to the policy proceeds in gross income. The $9,000 principal amount may be excluded from gross income. (LO 2.8)
16. **None.** David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.8)
17. None of the payment is taxable. Life insurance proceeds are generally considered to be tax-free and specifically excluded from taxable income. (LO 2.8)
18. Qualified dividends are taxed at either 0%, 15%, or 20% depending on income and filing status. For example, a single taxpayer with income below $39,375 has a capital gain rate of 0%. Income over $39,375 but below $434,550 pays at 15% and the capital gains rate is 20% for income above that. A 3.8% Medicare tax on net investment income will be added to the rates for certain high-income taxpayers. (LO 2.9)
19. The taxpayer can either (1) report the interest in the year the bonds are cashed or in the year they mature, whichever is earlier (no election is required to use this method), or (2) the taxpayer may elect to report the increase in redemption value each year. (LO 2.9)
20. See Schedule B on Page 44. (LO 2.9)
21. **6.00%** = 4.5% ÷ (100% – 25%). (LO 2.10)
22. The tax-exempt municipal bond has the same 5% before and after-tax rate of return. The corporate bond has an after-tax return of 4.55% (7% x (1 – 35%)). Karen should invest in the tax-exempt bond due to the higher after-tax rate of return. (LO 2.10)
23. **$5,600**. Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.11)
24. $10,000 is taxable. This gift is clearly bonus income in a business setting so it does not qualify for tax-free gift treatment, even if Gwen's client calls the payment a gift. (LO 2.11)
25. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.11)
26. $12,000 is taxable since there is no exclusion for payments made for room and board. $8,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. (LO 2.12)
27. a. (1) **$450**.
    (2) **$450**.
    (3) **$0**.

    b. (1) **$0**.
    (2) **$425,000**.
    (LO 2.13)
28. Arlen does not deduct the alimony or child support.
    Jane does not report the alimony or child support as income. (LO 2.13)
29. No gain is taxable to Cindy on the transfer of the house since it is part of a property settlement related to a divorce. Allen has a basis of $90,000 in the house for calculating tax on any future sale of the house. (LO 2.13)
30. **$11,947**; Tuition, reasonable room and board, and books. (LO 2.14)
31. **$0**; All distributions are used for qualifying expenses. (LO 2.14)
32. **$3,250**. Unemployment benefits received are included in gross income. (LO 2.15)
33. See calculation on the worksheet on Page 45. (LO 2.16)
34. a. **Yes**. Tax-free municipal bond income is added to AGI in the formula to determine the amount of taxable Social Security.
    b. **Zero**. The taxpayer's income is below the threshold amount used in the formula to determine whether Social Security is taxable.
    c. **85%**. High-income taxpayers must include 85% of Social Security benefits in taxable income. (LO 2.16)

Group 2: Problem 20

SCHEDULE B (Form 1040 or 1040-SR)
Department of the Treasury Internal Revenue Service (99)

Interest and Ordinary Dividends

► Go to *www.irs.gov/ScheduleB* for instructions and the latest information.
► Attach to Form 1040 or 1040-SR.

OMB No. 1545-0074
2019
Attachment Sequence No. 08

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

Part I Interest

(See instructions and the instructions for Forms 1040 and 1040-SR, line 2b.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

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

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

Part II Ordinary Dividends

(See instructions and the instructions for Forms 1040 and 1040-SR, line 3b.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

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

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

Part III Foreign Accounts and Trusts

Caution: If required, failure to file FinCEN Form 114 may result in substantial penalties. See instructions.

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

		Yes	No
7a	At any time during 2019, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions		X
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
b	If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ►		
8	During 2019, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		X

Group 2: Problem 33

1.	Enter the total amount of social security income	**1.**	$7,400
2.	Enter one-half of line 1	**2.**	3,700
3.	Enter the total of taxable income items on Form 1040 except social security income	**3.**	14,500
4.	Enter the amount of tax exempt interest income	**4.**	30,000
5.	Add lines 2, 3, and 4	**5.**	48,200
6.	Enter all adjustments for AGI except for student loan interest, the domestic production activities deduction and the tuition and fees deduction	**6.**	-0-
7.	Subtract line 6 from line 5. If zero or less, stop here, none of the social security benefits are taxable	**7.**	48,200
8.	Enter $25,000 ($32,000 if married filing jointly; $0 if married filing separately and living with spouse at any time during the year)	**8.**	25,000
9.	Subtract line 8 from line 7. If zero or less, enter -0-	**9.**	23,200
Note:	*If line 9 is zero or less, stop here;* **none of your benefits are taxable**. *Otherwise, go on to line 10.*		
10.	Enter $9,000 ($12,000 if married filing jointly; $0 if married filing separately and living with spouse at any time during the year)	**10.**	9,000
11.	Subtract line 10 from line 9. If zero or less, enter -0-	**11.**	14,200
12.	Enter the **smaller** of line 9 or line 10	**12.**	9,000
13.	Enter one-half of line 12	**13.**	4,500
14.	Enter the **smaller** of line 2 or line 13	**14.**	3,700
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	**15.**	12,070
16.	Add lines 14 and 15	**16.**	15,770
17.	Multiply line 1 by 85% (.85)	**17.**	6,290
18.	**Taxable benefits**. Enter the **smaller** of line 16 or line 17	**18.**	$6,290

Group 3 – Writing Assignment

Research Solution:

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

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

Dear Ms. Lazo,

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

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

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

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

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

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

Sincerely,
Trevor Malcolm
for Whittenburg and Gill, CPAs

Group 4 – Comprehensive Problems

1. See pages 47 through 50.

2A. See pages 51 through 53.

2B. See pages 55 through 57.

Group 5 – Cumulative Software Problem

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

Comprehensive Problem 1

Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box.
☐ Single ☒ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	Your social security number
Beverly	Hair	465 74 3321
If joint return, spouse's first name and middle initial	**Last name**	**Spouse's social security number**
Ken	Hair	465 57 9934

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

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
3567 River Street

Foreign country name: Springfield, MO 63126 | 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

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

Standard Deduction Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

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

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	53,700
2a	Tax-exempt interest	2a	1,000		
b	Taxable interest. Attach Sch. B if required			2b	652
3a	Qualified dividends	3a	300		
b	Ordinary dividends. Attach Sch. B if required			3b	300
4a	IRA distributions	4a			
b	Taxable amount			4b	
c	Pensions and annuities	4c			
d	Taxable amount			4d	
5a	Social security benefits	5a			
b	Taxable amount			5b	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			6	
7a	Other income from Schedule 1, line 9			7a	1,825
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶			7b	56,477
8a	Adjustments to income from Schedule 1, line 22			8a	
b	Subtract line 8a from line 7b. This is your **adjusted gross income** ▶			8b	56,477
9	**Standard deduction or itemized deductions** (from Schedule A)	9	24,400		
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10			
11a	Add lines 9 and 10			11a	24,400
b	**Taxable income.** Subtract line 11a from line 8b			11b	32,077

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction,* see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Comprehensive Problem 1, cont.

Form 1040 (2019) Page **2**

12a	**Tax** (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	12a	3,425
b	Add Schedule 2, line 3, and line 12a and enter the total ▶	12b	3,425
13a	Child tax credit or credit for other dependents	13a	
b	Add Schedule 3, line 7, and line 13a and enter the total ▶	13b	
14	Subtract line 13b from line 12b. If zero or less, enter -0-	14	3,425
15	Other taxes, including self-employment tax, from Schedule 2, line 10	15	
16	Add lines 14 and 15. This is your **total tax** ▶	16	3,425
17	Federal income tax withheld from Forms W-2 and 1099	17	4,790
18	Other payments and refundable credits:		
a	Earned income credit (EIC)	18a	
b	Additional child tax credit. Attach Schedule 8812	18b	
c	American opportunity credit from Form 8863, line 8	18c	
d	Schedule 3, line 14	18d	
e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶	18e	
19	Add lines 17 and 18e. These are your **total payments** ▶	19	4,790

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Refund

20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**	20	1,365
21a	Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	21a	1,365
▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
▶ d	Account number		
22	Amount of line 20 you want **applied to your 2020 estimated tax** ▶	22	

Direct deposit? See instructions.

Amount You Owe

23	**Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶	23	
24	Estimated tax penalty (see instructions) ▶	24	

Third Party Designee (Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

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

Sign Here

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

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

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Accountant	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
		Student	
Phone no.	Email address		

Paid Preparer Use Only

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

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

Comprehensive Problem 1, cont.

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

Additional Income and Adjustments to Income

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

OMB No. 1545-0074
2019
Attachment Sequence No. 01

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

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	1,825
8	Other income. List type and amount ▶	8	
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	1,825

Part II Adjustments to Income

10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
b	Recipient's SSN ▶		
c	Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Reserved for future use	21	
22	Add lines 10 through 21. These are your **adjustments to income.** Enter here and on Form 1040 or 1040-SR, line 8a	22	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040 or 1040-SR) 2019**

Comprehensive Problem 1, cont.

Beverly and Ken Hair

Qualified Dividends and Capital Gain Tax Worksheet—Line 12a

Before you begin:
- ✓ See the earlier instructions for line 12a to see if you can use this worksheet to figure your tax.
- ✓ Before completing this worksheet, complete Form 1040 or 1040-SR through line 11b.
- ✓ If you don't have to file Schedule D and you received capital gain distributions, be sure you checked the box on Form 1040 or 1040-SR, line 6.

1.	Enter the amount from Form 1040 or 1040-SR, line 11b. However, if you are filing Form 2555 (relating to foreign earned income), enter the amount from line 3 of the Foreign Earned Income Tax Worksheet		**1.** 32,077		
2.	Enter the amount from Form 1040 or 1040-SR, line 3a*	**2.** 300			
3.	Are you filing Schedule D?* ☐ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or 16 is blank or a loss, enter -0-. ☒ **No.** Enter the amount from Form 1040 or 1040-SR, line 6.	**3.** 0			
4.	Add lines 2 and 3	**4.** 300			
5.	If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0-	**5.** 0			
6.	Subtract line 5 from line 4. If zero or less, enter -0-		**6.** 300		
7.	Subtract line 6 from line 1. If zero or less, enter -0-		**7.** 31,777		
8.	Enter: $39,375 if single or married filing separately, $78,750 if married filing jointly or qualifying widow(er), $52,750 if head of household.		**8.** 78,750		
9.	Enter the smaller of line 1 or line 8		**9.** 32,077		
10.	Enter the smaller of line 7 or line 9		**10.** 31,777		
11.	Subtract line 10 from line 9. This amount is taxed at 0%		**11.** 300		
12.	Enter the smaller of line 1 or line 6		**12.** 300		
13.	Enter the amount from line 11		**13.** 300		
14.	Subtract line 13 from line 12		**14.** 0		
15.	Enter: $434,550 if single, $244,425 if married filing separately, $488,850 if married filing jointly or qualifying widow(er), $461,700 if head of household.		**15.** 488,850		
16.	Enter the smaller of line 1 or line 15		**16.** 32,077		
17.	Add lines 7 and 11		**17.** 32,077		
18.	Subtract line 17 from line 16. If zero or less, enter -0-		**18.** 0		
19.	Enter the smaller of line 14 or line 18		**19.** 0		
20.	Multiply line 19 by 15% (0.15)			**20.**	0
21.	Add lines 11 and 19		**21.** 300		
22.	Subtract line 21 from line 12		**22.** 0		
23.	Multiply line 22 by 20% (0.20)			**23.**	0
24.	Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet			**24.**	3,425
25.	Add lines 20, 23, and 24			**25.**	3,425
26.	Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet			**26.**	3,461
27.	**Tax on all taxable income.** Enter the **smaller** of line 25 or 26. Also include this amount on the entry space on Form 1040 or 1040-SR, line 12a. If you are filing Form 2555, don't enter this amount on the entry space on Form 1040 or 1040-SR, line 12a. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet			**27.**	3,425

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

Comprehensive Problem 2A

Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☒ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)

If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	Your social security number
Ray	Gomez	469 21 5523
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Maria	Gomez	444 65 9912

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

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
1610 Quince Avenue

Foreign country name: McAllen, TX 78701 | 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**

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

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

July 11, 2019

Age/Blindness **You:** ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

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

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	62,817
2a	Tax-exempt interest	2a	b Taxable interest. Attach Sch. B if required	2b	673
3a	Qualified dividends	3a	b Ordinary dividends. Attach Sch. B if required	3b	
4a	IRA distributions	4a	b Taxable amount	4b	
c	Pensions and annuities	4c	d Taxable amount	4d	
5a	Social security benefits	5a	b Taxable amount	5b	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			6	
7a	Other income from Schedule 1, line 9			7a	4,025
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶			7b	67,515
8a	Adjustments to income from Schedule 1, line 22			8a	5,400
b	Subtract line 8a from line 7b. This is your **adjusted gross income** ▶			8b	62,115
9	**Standard deduction or itemized deductions** (from Schedule A)	9	24,400		
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10			
11a	Add lines 9 and 10			11a	24,400
b	**Taxable income.** Subtract line 11a from line 8b			11b	37,715

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction,* see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Comprehensive Problem 2A, cont.

Form 1040 (2019) Page 2

12a	**Tax** (see inst.) Check if any from Form(s): **1** ☐ 8814 **2** ☐ 4972 **3** ☐	12a	4,139		
b	Add Schedule 2, line 3, and line 12a and enter the total ▶			12b	4,139
13a	Child tax credit or credit for other dependents	13a			
b	Add Schedule 3, line 7, and line 13a and enter the total ▶			13b	
14	Subtract line 13b from line 12b. If zero or less, enter -0-			14	4,139
15	Other taxes, including self-employment tax, from Schedule 2, line 10			15	
16	Add lines 14 and 15. This is your **total tax** ▶			16	4,139
17	Federal income tax withheld from Forms W-2 and 1099			17	5,724
18	Other payments and refundable credits:				
a	Earned income credit (EIC)	18a			
b	Additional child tax credit. Attach Schedule 8812	18b			
c	American opportunity credit from Form 8863, line 8	18c			
d	Schedule 3, line 14	18d			
e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶			18e	
19	Add lines 17 and 18e. These are your **total payments** ▶			19	5,724

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

Refund

20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**			20	1,585
21a	Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			21a	1,585
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings				
▶ d	Account number				
22	Amount of line 20 you want **applied to your 2020 estimated tax** ▶	22			

Direct deposit? See instructions.

Amount You Owe

23	**Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶			23	
24	Estimated tax penalty (see instructions) ▶	24			

Third Party Designee (Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

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

Sign Here

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

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

Your signature	Date	Your occupation Salesperson	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation Clerk	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

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

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

Comprehensive Problem 2A, cont.

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

Additional Income and Adjustments to Income

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

OMB No. 1545-0074
2019
Attachment Sequence No. 01

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

	Part I Additional Income		
1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income. List type and amount ▶ Lottery winnings	8	4,025
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	4,025
	Part II Adjustments to Income		
10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	5,400
b	Recipient's SSN ▶ 566 74 8765		
c	Date of original divorce or separation agreement (see instructions) ▶ 1/27/2014		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Reserved for future use	21	
22	Add lines 10 through 21. These are your **adjustments to income.** Enter here and on Form 1040 or 1040-SR, line 8a	22	5,400

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040 or 1040-SR) 2019**

Comprehensive Problem 2B

Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box.
☐ Single ☒ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	Your social security number
Carl	Conch	835 21 5423
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Mary	Duval	633 65 7912

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Presidential Election Campaign
1234 Mallory Square	64	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
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		
Key West, FL 33040		

Foreign country name	Foreign province/state/county	Foreign postal code	If more than four dependents, see instructions and ✓ here ▶ ☐

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

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

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction*, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2					1	67,895
2a	Tax-exempt interest	2a		b	Taxable interest. Attach Sch. B if required	2b	370
3a	Qualified dividends	3a		b	Ordinary dividends. Attach Sch. B if required	3b	234
4a	IRA distributions	4a		b	Taxable amount	4b	
c	Pensions and annuities	4c		d	Taxable amount	4d	
5a	Social security benefits	5a		b	Taxable amount	5b	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐					6	
7a	Other income from Schedule 1, line 9					7a	3,764
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶					7b	72,263
8a	Adjustments to income from Schedule 1, line 22					8a	
b	Subtract line 8a from line 7b. This is your **adjusted gross income** ▶					8b	72,263
9	**Standard deduction or itemized deductions** (from Schedule A)	9	24,400				
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10					
11a	Add lines 9 and 10					11a	24,400
b	**Taxable income.** Subtract line 11a from line 8b					11b	47,863

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

Comprehensive Problem 2B, cont.

Form 1040 (2019) Page 2

12a	Tax (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	12a	5,357		
b	Add Schedule 2, line 3, and line 12a and enter the total ▶			12b	5,357
13a	Child tax credit or credit for other dependents	13a			
b	Add Schedule 3, line 7, and line 13a and enter the total ▶			13b	
14	Subtract line 13b from line 12b. If zero or less, enter -0-			14	5,357
15	Other taxes, including self-employment tax, from Schedule 2, line 10			15	
16	Add lines 14 and 15. This is your **total tax** ▶			16	5,357
17	Federal income tax withheld from Forms W-2 and 1099			17	6,820
18	Other payments and refundable credits:				
a	Earned income credit (EIC)	18a			
b	Additional child tax credit. Attach Schedule 8812	18b			
c	American opportunity credit from Form 8863, line 8	18c			
d	Schedule 3, line 14	18d			
e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶			18e	
19	Add lines 17 and 18e. These are your **total payments** ▶			19	6,820

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

DRAFT AS OF July 11, 2019 DO NOT FILE

Refund

20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**			20	1,463
21a	Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			21a	1,463
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings				
▶ d	Account number				
22	Amount of line 20 you want **applied to your 2020 estimated tax** ▶	22			

Direct deposit? See instructions.

Amount You Owe

23	**Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶			23	
24	Estimated tax penalty (see instructions) ▶	24			

Third Party Designee (Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

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

Sign Here

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

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

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Pie Maker	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
		Homemaker	
Phone no.	Email address		

Paid Preparer Use Only

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

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

Comprehensive Problem 2B, cont.

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

Additional Income and Adjustments to Income

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

OMB No. 1545-0074
2019
Attachment Sequence No. 01

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

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	2,989
8	Other income. List type and amount ▶ Raffle prize	8	775
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9	3,764

Part II Adjustments to Income

10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
b	Recipient's SSN ▶		
c	Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Reserved for future use	21	
22	Add lines 10 through 21. These are your **adjustments to income.** Enter here and on Form 1040 or 1040-SR, line 8a	22	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040 or 1040-SR) 2019**

Key Number Tax Return Summary

Chapter 2

Comprehensive Problem 1

Adjusted Gross Income (Line 8b)	56,477
Taxable Income (Line 11b)	32,077
Total Tax (Line 16)	3,425
Amount Overpaid (Line 20)	1,365

Comprehensive Problem 2A

Adjusted Gross Income (Line 8b)	62,115
Taxable Income (Line 11b)	37,715
Total Tax (Line 16)	4,139
Amount Overpaid (Line 20)	1,585

Comprehensive Problem 2B

Adjusted Gross Income (Line 8b)	72,263
Taxable Income (Line 11b)	47,863
Total Tax (Line 16)	5,357
Amount Overpaid (Line 20)	1,463