

Cumulative Problems

Tax Return Problems

Decision Making

49. Alice and Bruce Byrd are married taxpayers, ages 47 and 45, who file a joint return. Their Social Security numbers are 034-48-4382 and 016-50-9556, respectively. They live at 473 Revere Avenue, Ames, MA 01850. Alice is the office manager for a dental clinic and earns an annual salary of \$40,000. Bruce is the manager of a fast-food outlet owned and operated by Plymouth Corporation. His annual salary is \$50,000.

The Byrds have two children, Cynthia (age 23 and S.S. no. 017-44-9126) and John (age 22 and S.S. no. 017-27-4148), who live with them. Both children are full-time students at a nearby college. Alice's mother, Myrtle Jones (age 74 and S.S. no. 016-15-8266), also lives with them. Her sole source of income is from Social Security benefits, which she deposits in a savings account.

During 2002, the Byrds furnished one-third of the total support of Bruce's widower father, Sam Byrd (age 70 and S.S. no. 034-82-8583). Sam lives alone and receives the rest of his support from Bruce's sister and brother (one-third each). They have signed a multiple support agreement allowing Bruce to claim Sam as a dependent for 2002. Sam died in November, and Bruce received life insurance proceeds of \$300,000 on December 28.

The Byrds had the following expenses relating to their personal residence during 2002:

Property taxes	\$4,600
Interest on home mortgage	8,000
Repairs to roof	2,200
Utilities	3,900
Fire and theft insurance	1,500

Medical expenses for 2002 include:

Medical insurance premiums	\$6,100
Doctor bill for Sam incurred in 2001 and not paid until 2002	2,500
Operation for Sam	6,300

The operation for Sam represents the one-third Bruce contributed toward his father's support.

Other relevant information follows:

- Alice and Bruce had \$2,900 (\$1,400 for Alice and \$1,500 for Bruce) withheld from their salaries for state income taxes. When they filed their 2001 state return in 2002, they paid additional state income tax of \$600.
- During 2002, Alice and Bruce attended a dinner dance sponsored by the Ames Police Disability Association (a qualified charitable organization). The Byrds paid \$200 for the tickets. Cost of comparable entertainment would normally be \$80. The Byrds contributed \$3,300 to their church and gave used clothing (cost of \$1,000 and fair market value of \$250) to the Salvation Army. All donations are supported by receipts.
- In 2002, the Byrds received interest income of \$1,450 from a savings account they maintained.
- Alice's employer requires that all employees wear uniforms to work. During 2002, Alice spent \$270 on new uniforms and \$132 on laundry charges. Bruce paid \$150 for an annual subscription to the *Journal of Franchise Management*. Neither Alice's nor Bruce's employers reimburse for employee expenses.
- Alice and Bruce had \$7,200 (\$3,200 for Alice and \$4,000 for Bruce) of Federal income tax withheld in 2002 and paid no estimated Federal income tax. Neither Alice nor Bruce wishes to designate \$3 to the Presidential Election Campaign Fund.

Part 1—Tax Computation

Compute net tax payable or refund due for Alice and Bruce Byrd for 2002. If they have overpaid, the amount is to be refunded. If you use tax forms for your computations, you will need Form 1040 and Schedules A and B. Suggested software: Crosslink tax preparation software or any commercially available tax preparation software.

Part 2—Tax Planning

Alice and Bruce are planning some significant changes for 2003. They have provided you with the following information and asked you to project their taxable income and tax liability for 2003.

Myrtle became seriously ill in December 2002 and is no longer able to care for herself. As a result, Alice plans to take a one-year leave of absence from work during 2003 to care for her. The Byrds will use \$100,000 of the life insurance proceeds they received as a result of Sam's death and pay off their mortgage in early January 2003. They will invest the remaining \$200,000 in short-term certificates of deposit (CDs) and use the interest for living expenses during 2003. They expect to earn total interest of \$8,000 on the CDs. Bruce has been awarded a 5% raise for 2003, and state and Federal tax withholdings on his salary will increase accordingly.

The Byrds will not incur any additional costs related to Sam's medical problem. Alice will not work at all during 2003, so none of her job-related expenses or withholdings will continue. The Byrds do not expect to owe additional state income tax when they file their 2002 return, but they do expect their charitable contributions and medical insurance premiums to continue at the 2002 level. Assume all other income and deduction items will continue at the same level in 2003 unless you have information that indicates otherwise.

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50. Paul and Donna Decker are married taxpayers, ages 44 and 42, who file a joint return for 2003. The Deckers live at 1121 College Avenue, Carmel, IN 46032. Paul is an assistant manager at Carmel Motor Inn, and Donna is a teacher at Carmel Elementary School. They present you with W-2 forms that reflect the following information:

	Paul	Donna
Salary	\$56,000	\$52,000
Federal tax withheld	9,600	9,000
State income tax withheld	800	700
FICA (Social Security and Medicare) withheld	4,284	3,978
Social Security numbers	222-11-4567	333-11-9872

Donna is the custodial parent of two children from a previous marriage who reside with the Deckers through the school year. The children, Larry and Jane Parker, reside with their father, Bob, during the summer. Relevant information for the children follows:

	Larry	Jane
Age	17	18
Social Security numbers	305-11-4567	303-11-9872
Months spent with Deckers	9	9

Under the divorce decree, Bob pays child support of \$150 per month per child during the nine months the children live with the Deckers. Bob says he spends \$200 per month per child during the three summer months they reside with him. Donna and Paul can document that they provide \$2,000 support per child per year. The divorce decree is silent as to which parent can claim the exemption for the children.

In August, Paul and Donna added a suite to their home to provide more comfortable accommodations for Hannah Snyder (263-33-4738), Donna's mother, who had moved in with them in February 2002 after the death of Donna's father. Not wanting to borrow