

Mortgage interest:	
Associated with Robert's home	8,000
Associated with Anne's home	4,500
Repairs to:	
Robert's home	1,200
Anne's home	700
Utilities:	
Robert's home	2,700
Anne's home	1,600
Replacement of roof:	
Robert's home	4,000

- Which of these expenses can Robert deduct?
- Which of these expenses can Anne deduct?
- Are the deductions *for* AGI or *from* AGI (itemized)?
- How could the tax consequences be improved?

Cumulative Problems

Tax Return Problems
Decision Making
Communications

62. John and Mary Jane Sanders are married, filing jointly. Their address is 204 Shoe Lane, Blacksburg, VA 24061. They are expecting their first two children (twins) in early 2004. John's salary in 2003 was \$94,000, from which \$14,500 of Federal income tax and \$4,700 of state income tax were withheld. Mary Jane made \$45,000 and had \$4,000 of Federal income tax and \$2,000 of state income tax withheld. The appropriate amount of FICA tax was withheld for John and for Mary Jane.

John and Mary Jane are both covered by their employer's medical insurance policies with two-thirds of the premiums being paid by the employers. The total premiums were \$4,500 for John and \$3,300 for Mary Jane. Mary Jane received medical benefits of \$4,700 under the plan. John was not ill during 2003.

John makes alimony payments of \$36,000 per year to June, his former wife. He also makes child support payments of \$12,000 for his son, Rod, who lives with June except for two months in the summer when he visits John and Mary Jane. At the time of the divorce, John worked for a Fortune 500 company and received a salary of \$200,000. As a result of corporate downsizing, he lost his job.

Mary Jane's father lived with them until his death in December. His only sources of income were salary of \$1,900, unemployment compensation benefits of \$3,500, and Social Security benefits of \$3,200. Of this amount, he deposited \$5,000 in a savings account. The remainder of his support of \$7,000, which included funeral expenses of \$5,100, was provided by John and Mary Jane.

Other income received by the Sanderses was as follows:

Interest on certificates of deposit	\$2,100
Dividend income	900
Share of S corporation taxable income (distributions from the S corporation to Mary Jane were \$350)	400
Award received by Mary Jane from employer for outstanding suggestion for cutting costs	1,500

John has always wanted to operate his own business. In October 2003, he incurred expenses of \$6,000 in investigating the establishment of a retail computer franchise. With the birth of the twins expected next year, however, he decides to forgo self-employment for at least a couple of years.

John and Mary Jane made charitable contributions of \$3,900 during the year and paid an additional \$1,000 in state income taxes in 2003 upon filing their 2002 state

income tax return. Their deductible home mortgage interest was \$9,000, and their property taxes came to \$3,100. They had no other deductible expenses.

Part 1—Tax Computation

Calculate John and Mary Jane's tax (or refund) due for 2003. Suggested software: Crosslink tax preparation software or any commercially available tax preparation software.

Part 2—Tax Planning

Assume that the Sanderses come to you for advice in December 2003. John has learned that he will receive a \$30,000 bonus. He wants to know if he should take it in December 2003 or in January 2004. Mary Jane will quit work on December 31 to stay home with the twins. Their itemized deductions will decrease by \$2,000 because Mary Jane will not have state income taxes withheld. Mary Jane will not receive the employee award in 2004. She expects the medical benefits received to be \$5,000. The Sanderses expect all of their other income items to remain the same in 2004. Write a letter to John and Mary Jane that contains your advice and prepare a memo for the tax files. Suggested software: Crosslink tax preparation software or any commercially available tax preparation software.

Tax Return Problems

63. Helen Archer, age 38, is single and lives at 120 Sanborne Avenue, Springfield, IL 60740. Her Social Security number is 648-11-9981. Helen has been divorced from her former husband, Albert, for three years. She has a son, Jason, who is age 17. His Social Security number is 648-98-3471. Helen does not wish to contribute \$3 to the Presidential Election Campaign Fund.

Helen, an advertising executive, earned a salary of \$75,000 in 2002. Her employer withheld \$9,900 in Federal income tax, \$3,200 in state income tax, and the appropriate amount of FICA tax.

Helen has legal custody of Jason. Jason lives with his father during summer vacation. Albert indicates that his expenses for Jason are \$10,000. Helen can document that she spent \$4,500 for Jason's support during 2002. In prior years, Helen gave a signed Form 8332 to Albert regarding Jason. For 2002, she has decided not to do so.

Helen's mother died on January 7, 2002. Helen inherited assets worth \$200,000 from her mother. As the sole beneficiary of her mother's life insurance policy, Helen received insurance proceeds of \$100,000. Her mother's cost basis for the life insurance policy was \$40,000. Helen's favorite aunt gave her \$10,000 for her birthday in October.

On November 8, 2002, Helen sells for \$19,000 Amber stock that she had purchased for \$20,000 from her first cousin, Walt, on December 5, 1995. His cost basis for the stock was \$12,000, and the stock was worth \$20,000 on December 5, 1995. On December 1, 2002, Helen sold Falcon stock for \$15,000. She had acquired the stock on July 2, 2002, for \$11,000.

An examination of Helen's records reveals the following information:

- Received interest income of \$3,500 from First Savings Bank.
- Received groceries valued at \$800 from a local grocery store for being the 100,000th customer.
- Received dividend income of \$1,200 from Amber.
- Received \$1,700 of interest income on City of Springfield school bonds.
- Received alimony of \$20,000 from Albert.
- Received a distribution of \$2,900 from ST Partnership. Her distributive share of the partnership passive taxable income was \$3,500.

From her checkbook records, she determines that she made the following payments during 2002:

- Charitable contributions of \$1,500 to First Presbyterian Church and \$800 to the American Red Cross.
- Mortgage interest on her residence of \$6,500.