

CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 - Multiple Choice Questions

- | | | |
|-----------------------------------|-------------------------------------|--------------------------------|
| 1. C (LO 2.1) | 7. A (LO 2.2) | 12. C (LO 2.7) |
| 2. C (LO 2.1) | 8. C $\$120 \times 12$ (LO 2.3) | 13. D (LO 2.7, 2.8, 2.9, 2.10) |
| 3. A (LO 2.1) | 9. E (LO 2.4) | 14. D (LO 2.11) |
| 4. D (LO 2.1) | 10. B $\$97,500/260 = \$375 \times$ | 15. D (LO 2.13) |
| 5. B (LO 2.1) | 4 = $\$1,500$ (LO 2.5) | 16. A (LO 2.14) |
| 6. C $\$500 \times 20\%$ (LO 2.2) | 11. C (LO 2.6) | 17. E (LO 2.14) |

Group 2 - Problems

1.
 - a. Excluded (LO 2.1)
 - b. Included (LO 2.1)
 - c. Included (LO 2.1)
 - d. Included (LO 2.1)
 - e. Excluded (LO 2.1)
 - f. Included (LO 2.1)
 - g. Included (LO 2.1)
 - h. Excluded (LO 2.1)
 - i. Excluded (LO 2.1)
 - j. Excluded (LO 2.1)
 - k. Included (LO 2.1)
2. The non-cash payment of \$6,000 for services performed is includable income to John. 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. (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. Qualified dividends are taxed at either 0%, 15%, or 20%. The 0% rate applies for taxpayers in the ordinary income tax brackets of 10% and 15%. The 15% rate applies for taxpayers in the ordinary income tax brackets of 25% through 35%. The 20% rate applies for taxpayers in the 39.6% bracket. A 3.8% Medicare surtax on net investment income will be added to the rates for certain high-income taxpayers. (LO 2.2)
6. If no election is made, the interest is not included in income until the I bond is converted to cash by the taxpayer. If the taxpayer makes an election, however, the income which increases the redemption value but is not paid in cash on the I bond each year is included in the taxpayer's gross income. (LO 2.2)
7. See Schedule B on page 40. (LO 2.2)

8. a. (1) **\$450.**
 (2) **\$450.**
 b. (1) **\$0.**
 (2) **\$425,000.** (LO 2.3)
9. Arlen may deduct the alimony of \$2,000 per month on his tax return. He cannot deduct the child support. Jane must report the alimony as income on her tax return. The child support is not taxable income to her. (LO 2.3)
10. 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 2.3)
11. a. **\$10,000.**
 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 2.4)
12. a. **\$4,000.**
 b. **\$14,500.**
 c. **\$0.** (LO 2.4, 2.8)

13. SIMPLIFIED METHOD WORKSHEET

- | | |
|---|---------------------|
| 1) Enter total amount received this year. | 1) <u>\$ 8,000</u> |
| 2) Enter cost in the plan at the annuity starting date. | 2) <u>\$58,500</u> |
| 3) Age at annuity starting date | |
| <u>Enter</u> | |
| 55 and under | 360 |
| 56–60 | 310 |
| 61–65 | 260 |
| 66–70 | 210 |
| 71 and older | 160 |
| 4) Divide line 2 by line 3. | 4) <u>\$ 225</u> |
| 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) <u>\$ 1,800</u> |
| 6) Enter the amount, if any, recovered tax-free in prior years | 6) <u>\$ 0</u> |
| 7) Subtract line 6 from line 2. | 7) <u>\$ 58,500</u> |
| 8) Enter the smaller of line 5 or 7. | 8) <u>\$ 1,800</u> |
| 9) Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero. (LO 2.5) | 9) <u>\$ 6,200</u> |
14. **\$53,000** = \$100,000 – \$35,000 – \$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 2.6)
15. **\$900.** A beneficiary, who is a surviving spouse, must include the entire amount of interest received with respect to the policy proceeds in gross income; the \$5,000 principal amount may be excluded from gross income. (LO 2.6)

16. David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.6)
17. None of the payment is taxable. Life insurance proceeds are generally considered to be tax-free and specifically excluded from taxable income. (LO 2.6)
18. **\$6,500**. Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.7)
19. \$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 2.7)
20. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.7)
21. \$8,000 is taxable since there is no exclusion for payments made for room and board. \$12,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. (LO 2.8)
22. 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 2.9)
23. **\$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 2.9)
24.
 - 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 2.10)
25. **6.25%** = $4.5\% \div (100\% - 28\%)$. (LO 2.11)
26. She will likely invest in the tax-free bond. At the 35% tax bracket, the equivalent rate of the tax-free bond is 7.69%, or 5% divided by $(1 - 0.35)$, which is higher than the 7% rate of return of the corporate bond. (LO 2.11)
27. **\$3,250**. Unemployment benefits received are included in gross income. (LO 2.12)
28. **\$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 2.13)
29. Yes. Tom will be better off reducing his taxable income by \$2,550 by using the medical flexible spending account. Since his income will be \$2,550 less, he will pay less tax than he would otherwise. (LO 2.13)
30. As calculated on the worksheet on page 41. (LO 2.14)

Chapter 2: Problem 7

SCHEDULE B Form 1099 or 1043		Interest and Ordinary Dividends		2016 Information required for 08
Department of the Treasury Social Security Administration An agency or office		Attach to Form 1040A or 1040. For information about Schedule B and its instructions see www.irs.gov/scheduleb .		You are a U.S. resident
Charles and Catherine				
Part I Interest				
See instructions on back and the instructions for Form 1040A or Form 1040, or 1043.	1	List name of payor. If any interest is from a self-inflated mortgage and the lender (200) is the property owner, person's residence, or construction back at 2000, list interest list 2000, show that type to social security number address.	Amount	
		Parent Bank Mortgage	1,245 300	
Note: 1. You received a 1099-INT from 1099-INT from 1099-INT or 1099-INT or 1099-INT from a brokerage firm. If the firm's name is the payer and enter the total interest shown on the 1099-INT.	2	Add the amounts on line 1.	2	1,545
	3	Exclude interest on USFF and USFS savings accounts opened after 1989. Attach Form 8815.	3	
	4	Subtract line 3 from line 2. Enter the result here and on Form 1040A or Form 1040, line 8a.	4	1,545
Note: If line 4 is over \$1,500, you must complete Part II.				
Part II Ordinary Dividends				
See instructions on back and the instructions for Form 1040A or Form 1040, or 1043.	5	List name of payor.		
		Media Line Phoenix Corporation Green Corporation Lehigh Corporation	700 2,350 1,200 950	
Note: 1. You received a 1099-DIV or 1099-DIV or 1099-DIV from a brokerage firm. If the firm's name is the payer and enter the ordinary dividends shown on that form.	6	Add the amounts on line 5. Enter the total here and on Form 1040A or Form 1040, line 9a.	6	5,200
Note: If line 6 is over \$1,500, you must complete Part III.				
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 transferee to, a foreign trust.				
Part III Foreign Accounts and Trusts				
See instructions on back.	7a	At any time during 2016, 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.	Yes	No
				X
		If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), because 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 2016, did you receive a distribution from, or were you the grantor of, or transferee to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back.		X

Group A Problem 30

1. Enter the total amount of social security income	1.	97,200
2. Enter one-half of line 1	2.	48,600
3. Enter the total of special interest (from Form 10-10) through social security interest	3.	14,500
4. Enter the amount of tax-exempt interest income	4.	30,000
5. Add lines 2, 3, and 4	5.	93,100
6. Enter all adjustments for AGI, except tax-exempt loan interest, the domestic production activities deduction, and the child tax credit exclusion	6.	-0-
7. Subtract line 6 from line 5. If zero or less, stop here; none of the special interest is deductible	7.	48,100
8. Enter \$95,000 (\$55,000 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.	23,100
Note: If line 9 is zero or less, stop here; none of your benefits are taxable. <i>Continued, go to line 11</i>		
10. Enter \$9,000 (\$4,500 if married filing jointly; \$0 if married filing separately and living with spouse at any time during the year)	10.	3,000
11. Subtract line 10 from line 9. If zero or less, enter 0	11.	14,100
12. Enter the smaller of line 9 or line 10	12.	3,000
13. Enter one-half of line 12	13.	1,500
14. Enter the smaller of line 9 or line 13	14.	3,000
15. Multiply line 14 by 65% (.65). If line 14 is zero, enter 0	15.	11,585
16. Add lines 14 and 15	16.	10,585
17. Multiply line 11 by 63% (.63)	17.	8,120
18. Taxable benefits. Enter the smaller of line 16 or line 17	18.	8,120

31. 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 receipts in taxable income. (LO 2.14)
32. The blank Alimony Recapture Worksheet is not reprinted here. The purpose of this problem is to familiarize the student with the IRS website.
33. See the answer to Problem 7.

Group 3 - Writing Assignment

Research Solution:

Whittenburg, Gill, and Altus-Buller, CPAs
 San Diego, CA
 August 3, 20xx

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

Dear Professor Lazo,

Thank you for requesting my advice concerning the tax treatment of your free trip to Costa Rica. I have researched your question and am sorry to say that the free tour is taxable.

The fair market value of the tour must be reported on Form 1040, Line 21 "Other Income." In addition, any expenses that you incurred during the trip cannot be deducted.

My conclusion is based upon the facts that you have provided me. I'm sorry that the news was not more favorable. If you have any questions or would like further explanation, please do not hesitate to call.

Sincerely,
 Trevor Malcolm
 for Whittenburg, Gill, and Altus-Buller, CPAs

Group 4 - Comprehensive Problems

1. See pages 43 through 45.
 2A. See pages 46 through 47.
 2B. See pages 48 through 49.

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.

Supplemental Exclusions

Form 1040A		Department of the Treasury Internal Revenue Service		U.S. Individual Income Tax Return for 2016		OMB No. 1545-0047 Use of this form is required for filing a return.	
Your full name and title 1421		Last name 1421		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
First initial, middle initial, and last name and title 1421		Last name 1421		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
Form, address (street and city), ZIP code, PO box, or indicator 3557 Pys Steel		City, town, or village, state, and ZIP code (Use area, foreign address, also complete accurate (see instructions)) Springfield, MO 65703		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
Original country name		Foreign permanent address		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
Filing status Check only one box. 1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (separate returns not allowed) 3 <input type="checkbox"/> Qualifying widow(er) with dependent child 4 <input type="checkbox"/> Head of household (qualifying person must be a dependent child, a dependent spouse, or a dependent child who is a member of the household) 5 <input type="checkbox"/> Married, but not living with spouse (See instructions)		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
Exemptions 1. Use this table to determine the number of exemptions you can claim. 2 <input checked="" type="checkbox"/> Yourself (You cannot claim an exemption for yourself if you are a dependent.) 3 <input type="checkbox"/> Spouse 4 Dependents: (1) Qualifying child (See instructions) (2) Other relative (See instructions) (3) Other individual (See instructions) (4) Nonresident alien (See instructions) (5) Beneficiary of an estate (See instructions) (6) Disabled individual (See instructions) (7) Disabled dependent (See instructions) (8) Disabled dependent (See instructions) (9) Disabled dependent (See instructions) (10) Disabled dependent (See instructions) (11) Disabled dependent (See instructions) (12) Disabled dependent (See instructions) (13) Disabled dependent (See instructions) (14) Disabled dependent (See instructions) (15) Disabled dependent (See instructions) (16) Disabled dependent (See instructions) (17) Disabled dependent (See instructions) (18) Disabled dependent (See instructions) (19) Disabled dependent (See instructions) (20) Disabled dependent (See instructions) (21) Disabled dependent (See instructions) (22) Disabled dependent (See instructions) (23) Disabled dependent (See instructions) (24) Disabled dependent (See instructions) (25) Disabled dependent (See instructions) (26) Disabled dependent (See instructions) (27) Disabled dependent (See instructions) (28) Disabled dependent (See instructions) (29) Disabled dependent (See instructions) (30) Disabled dependent (See instructions) (31) Disabled dependent (See instructions) (32) Disabled dependent (See instructions) (33) Disabled dependent (See instructions) (34) Disabled dependent (See instructions) (35) Disabled dependent (See instructions) (36) Disabled dependent (See instructions) (37) Disabled dependent (See instructions) (38) Disabled dependent (See instructions) (39) Disabled dependent (See instructions) (40) Disabled dependent (See instructions) (41) Disabled dependent (See instructions) (42) Disabled dependent (See instructions) (43) Disabled dependent (See instructions) (44) Disabled dependent (See instructions) (45) Disabled dependent (See instructions) (46) Disabled dependent (See instructions) (47) Disabled dependent (See instructions) (48) Disabled dependent (See instructions) (49) Disabled dependent (See instructions) (50) Disabled dependent (See instructions) (51) Disabled dependent (See instructions) (52) Disabled dependent (See instructions) (53) Disabled dependent (See instructions) (54) Disabled dependent (See instructions) (55) Disabled dependent (See instructions) (56) Disabled dependent (See instructions) (57) Disabled dependent (See instructions) (58) Disabled dependent (See instructions) (59) Disabled dependent (See instructions) (60) Disabled dependent (See instructions) (61) Disabled dependent (See instructions) (62) Disabled dependent (See instructions) (63) Disabled dependent (See instructions) (64) Disabled dependent (See instructions) (65) Disabled dependent (See instructions) (66) Disabled dependent (See instructions) (67) Disabled dependent (See instructions) (68) Disabled dependent (See instructions) (69) Disabled dependent (See instructions) (70) Disabled dependent (See instructions) (71) Disabled dependent (See instructions) (72) Disabled dependent (See instructions) (73) Disabled dependent (See instructions) (74) Disabled dependent (See instructions) (75) Disabled dependent (See instructions) (76) Disabled dependent (See instructions) (77) Disabled dependent (See instructions) (78) Disabled dependent (See instructions) (79) Disabled dependent (See instructions) (80) Disabled dependent (See instructions) (81) Disabled dependent (See instructions) (82) Disabled dependent (See instructions) (83) Disabled dependent (See instructions) (84) Disabled dependent (See instructions) (85) Disabled dependent (See instructions) (86) Disabled dependent (See instructions) (87) Disabled dependent (See instructions) (88) Disabled dependent (See instructions) (89) Disabled dependent (See instructions) (90) Disabled dependent (See instructions) (91) Disabled dependent (See instructions) (92) Disabled dependent (See instructions) (93) Disabled dependent (See instructions) (94) Disabled dependent (See instructions) (95) Disabled dependent (See instructions) (96) Disabled dependent (See instructions) (97) Disabled dependent (See instructions) (98) Disabled dependent (See instructions) (99) Disabled dependent (See instructions) (100) Disabled dependent (See instructions)		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.		OMB No. 1545-0047 Use of this form is required for filing a return.	
Income Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld. Include net capital gain distributions.		7 Wages, salaries, tips, etc. Attach Form(s) W-2 62,875		8 Taxable interest income. Attach Form(s) 1099-INT 600		9 Tax-exempt interest. Don't include on line 9a. 1,000	
		9a Dividend distributions. Attach Form(s) 1099-DIV 0		9b Capital gain distributions. Attach Form(s) 1099-DIV 0		10a Dividends and capital gains distributions. 0	
		10b Total amount (Sum of 10a and 10b) 0		11a Total amount (Sum of 7, 8, 9a, and 9b) 63,875		11b Total amount (Sum of 7, 8, 9a, and 9b) 63,875	
		12a Total amount (Sum of 10a and 10b) 0		12b Total amount (Sum of 10a and 10b) 0		13 Total amount (Sum of 11a and 12a) 63,875	
		14a Total amount (Sum of 11b and 12b) 0		14b Total amount (Sum of 11b and 12b) 0		15 Add lines 13 and 14b (your total income) 63,875	
Adjusted gross income		16 Deductions for state and local taxes (See instructions) 0		17 Charitable contributions (See instructions) 0		18 Total amount (Sum of 16 and 17) 0	
		19 Total amount (Sum of 15 and 18) 63,875		20 Add lines 19 and 18 (your total adjustments) 0		21 Subtract line 20 from line 19. This is your adjusted gross income. 63,875	

For filing rules, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. (661) 11232 (1-17-16) 1040A

Complete the following Problem 1, 2, and 3.

Form 1040-ET 2013		Page 2		
Tax, credits, and payments	22	Enter the total amount of federal income tax withheld from your pay	60	60 644
	23a	<input type="checkbox"/> You are self-employed, a partner, or a sole proprietor. <input type="checkbox"/> Total taxes paid. <input type="checkbox"/> Spouse or partner is self-employed. <input type="checkbox"/> Total taxes paid. <input type="checkbox"/> Other taxes paid. <input type="checkbox"/> Other taxes paid.		
	24	Enter your standard deduction	64	10 800
Standard Deduction	25	Enter the total amount of your state and local taxes paid	65	10 000
People who check box 25 or 26 are not eligible for the credit.	26	Exemptions. Enter the number of exemptions claimed	66	8 000
People who check box 27 are not eligible for the credit.	27	Subtract the total amount of the following tax credits from the total amount of tax paid	67	24 844
People who check box 28 are not eligible for the credit.	28	Tax on refunding any contribution to an IRA (see instructions)	68	4 338
People who check box 29 are not eligible for the credit.	29	Excess advance premium tax credit (APTC) from Form 1098-A		
People who check box 30 are not eligible for the credit.	30	Additional tax on IRA distribution	69	4 288
People who check box 31 are not eligible for the credit.	31	Charitable contributions (see instructions)		
People who check box 32 are not eligible for the credit.	32	Credit for the employer's share of Social Security taxes		
People who check box 33 are not eligible for the credit.	33	Education credits from Form 1098-E, Form 1098-V, or Form 1098-ES		
People who check box 34 are not eligible for the credit.	34	Foreign tax credits (see instructions)		
People who check box 35 are not eligible for the credit.	35	State and local general sales taxes (see instructions)		
People who check box 36 are not eligible for the credit.	36	Additional tax on IRA distribution	70	4 288
People who check box 37 are not eligible for the credit.	37	Subtract the total amount of the following tax credits from the total amount of tax paid	71	1 288
People who check box 38 are not eligible for the credit.	38	Health care coverage credit (see instructions) for your coverage	72	58
People who check box 39 are not eligible for the credit.	39	Additional tax on IRA distribution	73	4 338
People who check box 40 are not eligible for the credit.	40	Additional tax on IRA distribution	74	4 338
People who check box 41 are not eligible for the credit.	41	Additional tax on IRA distribution		
People who check box 42 are not eligible for the credit.	42a	Earned income credit (EIC)	75	
People who check box 43 are not eligible for the credit.	43	Additional tax on IRA distribution	76	
People who check box 44 are not eligible for the credit.	44	Additional tax on IRA distribution	77	
People who check box 45 are not eligible for the credit.	45	Additional tax on IRA distribution	78	
People who check box 46 are not eligible for the credit.	46	Additional tax on IRA distribution	79	1 988
Refund	47	Enter the amount of the refund you are claiming	80	658
Direct deposit?	48a	<input type="checkbox"/> Yes. Enter the amount of the refund you are claiming. <input type="checkbox"/> No. Enter the amount of the refund you are claiming.	81	658
Insured?	49	<input type="checkbox"/> Yes. Enter the amount of the refund you are claiming. <input type="checkbox"/> No. Enter the amount of the refund you are claiming.		
Amount you owe	60	Amount you owe. Subtract line 47 from line 59. If the result is less than zero, see instructions.		
Third party designee	61	Designated third party designee (see instructions)		
Sign here	62	I declare under penalty of perjury that the information on this return is true and correct. I am the taxpayer or the preparer of this return. I understand that anyone who furnishes false or misleading information on a tax return or who omits material or information on a tax return is guilty of tax evasion, tax fraud, and other crimes that can result in imprisonment and fines.		
Preparer use only	63	Preparer's name: _____ Printed name Preparer's title: _____ Printed title Date: _____ Date Preparer's signature: _____ Signature Preparer's tax ID number: _____ Tax ID number Preparer's address: _____ Address		

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Qualified Dividends and Capital Gain Tax Worksheet—Line 28

Keep for Your Records



Before you begin: If the amount you do not have to file Form 8040 (see the instructions for Form 1040A, line 10).

1. Enter the amount from Form 1040A, line 27	1.	34,844
2. Enter the amount from Form 1040A, line 9b	2.	0
3. Enter the amount from Form 1040A, line 10	3.	0
4. Add lines 2 and 3	4.	0
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	34,844
6. Enter the smaller of:	6.	34,844
a. The amount on line 5, or	}	
b. 20% of single or married filing separately,		
30% if married filing jointly or qualifying widow(er), or		
10% if head of household		
7. Enter the smaller of line 5 or line 6	7.	34,844
8. Subtract line 7 from line 6. This amount is taxed at 0%	8.	0
9. Enter the smaller of line 7 or line 4	9.	0
10. Enter the amount from line 6	10.	0
11. Subtract line 9 from line 10	11.	0
12. Multiply line 11 by 15% (0.15)	12.	0
13. Use the Tax Table to figure the tax on the amount on line 5. Enter the tax here	13.	4,238
14. Add lines 12 and 13	14.	4,238
15. Use the Tax Table to figure the tax on the amount on line 6. Enter the tax here	15.	4,311
16. Tax on all taxable income. Enter the smaller of line 14 or line 15 here and on Form 1040A, line 28	16.	4,311

* Note: This worksheet does not apply for high-income taxpayers under the ACA or ATFA provisions (see 2014-18).

Complete the following Problem 2-4

Form 1040		Department of the Treasury • Internal Revenue Service		2011		16		OMB No. 1545-0047 • 80 (Use only if instructed to file separately)	
Part III Taxpayer's Name, SSN, and other identifying information Your last name and first name Day: <u>Ray</u> Middle: <u>Walter</u> Last: <u>James</u>				Social Security Number <u>301-21-5523</u>		This person's adjusted gross income was <u>109,135</u>			
Part IV Address, apartment, house, or other location 1313 Quince Avenue Columbia, SC 29204-1000				Home Phone Number (803) 733-1234		If you are filing a joint return, enter the name and SSN of the other spouse on the return			
Part V Filing Status Check only one box: <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)				Part VI Exemptions (A) <input checked="" type="checkbox"/> Yourself (B) <input type="checkbox"/> Spouse (C) <input type="checkbox"/> Dependent child (D) <input type="checkbox"/> Other dependent		If more than four dependents, see instructions on back of form			
Part VII Income Attach Form(s) if you have one or more that must be attached to this return. If you did not get a 1099, see instructions.				7 Wages, salaries, tips, etc. (attach Form W-2) 8a Taxable interest (attach Form 1099-INT) 8b Tax-exempt interest (attach Form 1099-INT) 9a Dividend distributions (attach Form 1099-DIV) 9b Capital gain distributions (attach Form 1099-DIV) 10 Taxable refunds, credits, or offsets of state and local taxes 11 State and local tax refund offset 12 Tax-exempt interest 13 Taxable annuities, pensions, IRAs, 401(k) plans, and 408(a) plans 14 Other taxable income 15a Social Security benefits (attach Form 1099-SSA) 15b Other Social Security benefits 16a Rents (attach Form 1099-NEC) 16b Royalties (attach Form 1099-MISC) 17 Partnership income (attach Form 1099-SCH) 18 Form 1099-PR (attach Form 1099-PR) 19 Other income (attach Form 1099-OID) 20a Social Security benefits (attach Form 1099-SSA) 20b Other income (attach Form 1099-OID)		7 <u>30,974</u> 8a <u>671</u> 8b <u>0</u> 9a <u>0</u> 9b <u>0</u> 10 <u>0</u> 11 <u>0</u> 12 <u>0</u> 13 <u>0</u> 14 <u>0</u> 15a <u>0</u> 15b <u>0</u> 16a <u>0</u> 16b <u>0</u> 17 <u>0</u> 18 <u>0</u> 19 <u>0</u> 20a <u>0</u> 20b <u>0</u> 21 <u>0</u> 22 <u>0</u> 23 <u>0</u> 24 <u>0</u> 25 <u>0</u> 26 <u>0</u> 27 <u>0</u> 28 <u>0</u> 29 <u>0</u> 30 <u>0</u> 31 <u>0</u> 32 <u>0</u> 33 <u>0</u> 34 <u>0</u> 35 <u>0</u> 36 <u>0</u> 37 <u>0</u> 38 <u>0</u> 39 <u>0</u> 40 <u>0</u> 41 <u>0</u> 42 <u>0</u>			
Part VIII Adjusted Gross Income 43 Total income 44 Adjusted gross income				43 <u>109,135</u> 44 <u>109,135</u>		Total gross income			
Part IX Other Information 45 Other information				45 <u>0</u>		Total adjusted gross income			

Comprehensive Problem 2 (cont.)

1040-SS (2012)		Page 2	
38 Rental, limited liability company or partnership income		38a	6,450
39 Tax and Credits			
39a <input type="checkbox"/> Charitable contributions (Schedule A, 122) <input type="checkbox"/> State/territorial taxes			
39b <input type="checkbox"/> State/territorial income taxes (Schedule A, 122) <input type="checkbox"/> State/territorial death taxes			
39c <input type="checkbox"/> Tax on the sale of a principal residence (Schedule A, 122) <input type="checkbox"/> Charitable deduction for state and local taxes (Schedule A, 122)			
40 Limited deduction for property sold on or after 1/1/01 and before 1/1/09		40	3,600
41 Rollover from an IRA, 401(k) plan, or other employer plan		41	48,800
42 Rollover from a 401(k) plan, 403(b) plan, or other employer plan		42	8,700
43 Rollover from a 401(k) plan, 403(b) plan, or other employer plan		43	8,700
44 Tax paid on the sale of a principal residence (Schedule A, 122)		44	10,200
45 Alternative minimum tax paid (Schedule A, 122)		45	
46 Credit for tax on the sale of a principal residence (Schedule A, 122)		46	
47 Refund of state and local taxes		47	9,700
48 Other Tax and Credits		48	
49 Other Tax and Credits		49	
50 Other Tax and Credits		50	
51 Other Tax and Credits		51	
52 Other Tax and Credits		52	
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299 Other Tax and Credits		299	
300 Other Tax and Credits		300	

Complete the following problem:

1040 U.S. Individual Income Tax Return		2016	OMB No. 1545-0047
Return for calendar year 2016 or other taxable year		2016 ending	25
Filing status: <input type="radio"/> Single <input checked="" type="radio"/> Married <input type="radio"/> Qualifying widow <input type="radio"/> Head of household Tax status: <input type="radio"/> Single <input checked="" type="radio"/> Married <input type="radio"/> Qualifying widow <input type="radio"/> Head of household	Social Security number: 888-12-6433 Special use address number: 000-00-0000	See separate instructions for filing status and dependent exemptions.	
Identification (number and name), if you have an EIN, see instructions: 12345678901234567890		EIN no. 00-0000000	If you have a 2016 return for a prior year, see instructions.
U.S. Post Office address: 4567 West St. 30040		Do not leave blank. If you are filing a return for a prior year, see instructions.	
Foreign country name: _____		Foreign postal code: _____	Foreign phone no.: _____
Filing Status Check only one box.	<input type="checkbox"/> Single <input checked="" type="checkbox"/> Married <input type="checkbox"/> Qualifying widow <input type="checkbox"/> Head of household		If you are filing a return for a prior year, see instructions.
Exemptions If more than four dependents, see instructions and check box <input type="checkbox"/>	<input type="checkbox"/> Dependent <input type="checkbox"/> Dependent with dependent <input type="checkbox"/> Self <input type="checkbox"/> Other		Do not check this box unless you are filing a return for a prior year.
Income Attach Form(s) W-2 here. Also attach Form(s) W-9 and 1099-R if tax was withheld. If you did not get a W-2, see instructions.	1. Total number of exempt dependents: 2 2. Wages, salaries, tips, and other compensation: 7 3a. Taxable amount of Roth IRA distributions: 8a 3b. Tax-exempt interest: 9b 3c. Dividend and capital gain distributions: 9c 3d. Qualified dividends: 9d 10. Taxable amount of distributions from qualified plans, IRAs, and annuities: 10 11. IRA distributions: 11 12. Taxable amount of distributions from IRAs, IRAs, and annuities: 12 13. Taxable amount of distributions from IRAs, IRAs, and annuities: 13 14. Other income (attach Form 1099): 14 15a. Dividend distributions: 15a 15b. Dividend distributions: 15b 16a. Dividend distributions: 16a 16b. Dividend distributions: 16b 17. Rental income, net of expenses: 17 18. Partnership income, net of expenses: 18 19. Income from other sources: 19 20a. Dividend distributions: 20a 20b. Dividend distributions: 20b 21. Capital gain distributions: 21 22. Capital gain distributions: 22		Add amounts on lines 7-22: 23 7 3a 3b 3c 3d 10 11 12 13 14 15a 15b 16a 16b 17 18 19 20a 20b 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37
Adjusted Gross Income	23. Total income: 23 24. Adjusted gross income: 24 25. Health savings account deduction: 25 26. Moving expenses: 26 27. Educator expenses: 27 28. Self-employed health insurance: 28 29. Self-employed health insurance: 29 30. Self-employed health insurance: 30 31. Self-employed health insurance: 31 32. Self-employed health insurance: 32 33. Self-employed health insurance: 33 34. Self-employed health insurance: 34 35. Self-employed health insurance: 35 36. Self-employed health insurance: 36 37. Self-employed health insurance: 37		23 24 25 26 27 28 29 30 31 32 33 34 35 36 37
See instructions, Form 1040, and Form 1040-SS for more information.		Form 1040 (2016)	

Form 1040-ES 2012

Page 2

Tax and Credits	42	State	42	7,349
Standard Deduction	43	43	12,300	
Charitable Contribution Deduction	44	44	28,048	
Employer's Share of Social Security Taxes	45	45	8,101	
Employer's Share of Medicare Taxes	46	46	50,340	
Retirement Savings Incentives	47	47	6,711	
Other Tax Credits	48	48		
Other Taxes	49	49		
Payments	50	50		
Refund	51	51	6,711	
Amount You Owe	52	52		
Third Party Designee	53	53		
Sign Here	54	54		
Field Preparer Use Only	55	55		

Form 1040-ES 2012

Key Number Tax Return Summary**Chapter 2****Comprehensive Problem 1**

Adjusted Gross Income (Line 21)	<u>55,544</u>
Taxable Income (Line 27)	<u>34,924</u>
Total Tax (Line 58)	<u>4,256</u>
Amount Overpaid (Line 47)	<u>504</u>

Comprehensive Problem 14

Adjusted Gross Income (Line 37)	<u>61,255</u>
Taxable Income (Line 13)	<u>40,759</u>
Total Tax (Line 63)	<u>9,168</u>
Amount Overpaid (Line 10)	<u>795</u>

Comprehensive Problem 28

Adjusted Gross Income (Line 37)	<u>71,846</u>
Taxable Income (Line 13)	<u>50,926</u>
Total Tax (Line 63)	<u>6,717</u>
Amount Overpaid (Line 75)	<u>2,077</u>

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2016	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
U.S. Individual Income Tax Return					
For the year Jan. 1–Dec. 31, 2016, or other tax year beginning			, 2016, ending		, 20
Your first name and initial			Last name		See separate instructions.
Albert T.			Gaytor		Your social security number
If a joint return, spouse's first name and initial			Last name		266 51 1966
Allison A.			Gaytor		Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.		266 34 1967
12340 Cocoshell Road					▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).			Foreign postal code		
Coral Gables, FL 33134					Presidential Election Campaign
Foreign country name			Foreign province/state/county		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. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse
Filing Status					
Check only one box.					
1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child					
Exemptions					
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input checked="" type="checkbox"/> Spouse					
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)					
Crocker Gaytor 261 55 1212 Son <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>					
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>					
d Total number of exemptions claimed					
					Boxes checked on 6a and 6b
					No. of children on 6c who:
					• lived with you
					• did not live with you due to divorce or separation (see instructions)
					Dependents on 6c not entered above
					Add numbers on lines above ▶
					3
Income					
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.					
If you did not get a W-2, see instructions.					
7 Wages, salaries, tips, etc. Attach Form(s) W-2					
8a Taxable interest. Attach Schedule B if required					
b Tax-exempt interest. Do not include on line 8a 8b					
9a Ordinary dividends. Attach Schedule B if required					
b Qualified dividends 9b					
10 Taxable refunds, credits, or offsets of state and local income taxes 10					
11 Alimony received 11					
12 Business income or (loss). Attach Schedule C or C-EZ 12					
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/> 13					
14 Other gains or (losses). Attach Form 4797 14					
15a IRA distributions 15a					
b Taxable amount 15b					
16a Pensions and annuities 16a					
b Taxable amount 16b					
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17					
18 Farm income or (loss). Attach Schedule F 18					
19 Unemployment compensation 19					
20a Social security benefits 20a					
b Taxable amount 20b					
21 Other income. List type and amount 21					
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22 65,250					
Adjusted Gross Income					
23 Educator expenses 23					
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24					
25 Health savings account deduction. Attach Form 8889 25					
26 Moving expenses. Attach Form 3903 26					
27 Deductible part of self-employment tax. Attach Schedule SE 27					
28 Self-employed SEP, SIMPLE, and qualified plans 28					
29 Self-employed health insurance deduction 29					
30 Penalty on early withdrawal of savings 30					
31a Alimony paid b Recipient's SSN ▶ 31a					
32 IRA deduction 32					
33 Student loan interest deduction 33					
34 Tuition and fees. Attach Form 8917 34					
35 Domestic production activities deduction. Attach Form 8903 35					
36 Add lines 23 through 35 36					
37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37 65,625					
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.					
				Cat. No. 11320B	Form 1040 (2016)

Form 1040 (2016)		Page 2	
38	Amount from line 37 (adjusted gross income)	38	65,625
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. } checked ▶ 39a <input type="checkbox"/> b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>		
Standard Deduction for—	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	12,600
<ul style="list-style-type: none"> • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,300 	41 Subtract line 40 from line 38	41	53,025
	42 Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	12,150
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	40,875
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	5,204
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	
	46 Excess advance premium tax credit repayment. Attach Form 8962	46	
	47 Add lines 44, 45, and 46	47	5,204
	48 Foreign tax credit. Attach Form 1116 if required	48	
	49 Credit for child and dependent care expenses. Attach Form 2441	49	
	50 Education credits from Form 8863, line 19	50	
	51 Retirement savings contributions credit. Attach Form 8880	51	
	52 Child tax credit. Attach Schedule 8812, if required.	52	
	53 Residential energy credits. Attach Form 5695	53	
	54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
	55 Add lines 48 through 54. These are your total credits	55	
	56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	5,204
Other Taxes	57 Self-employment tax. Attach Schedule SE	57	
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a Household employment taxes from Schedule H	60a	
	b First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	
	62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
	63 Add lines 56 through 62. This is your total tax	63	5,204
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64	6,120
	65 2016 estimated tax payments and amount applied from 2015 return	65	
	66a Earned income credit (EIC)	66a	
	b Nontaxable combat pay election 66b	66b	
	67 Additional child tax credit. Attach Schedule 8812	67	
	68 American opportunity credit from Form 8863, line 8	68	
	69 Net premium tax credit. Attach Form 8962	69	
	70 Amount paid with request for extension to file	70	
	71 Excess social security and tier 1 RRTA tax withheld	71	
	72 Credit for federal tax on fuels. Attach Form 4136	72	
	73 Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
	74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74	6,120
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	916
	76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a	916
Direct deposit? See instructions.	b Routing number	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d Account number		
	77 Amount of line 75 you want applied to your 2017 estimated tax ▶ 77	77	
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	
	79 Estimated tax penalty (see instructions)	79	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> 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 Boat Captain
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation Homemaker
			If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date
			Check <input type="checkbox"/> if self-employed
	Firm's name ▶		Firm's EIN ▶
	Firm's address ▶		Phone no.