

CHAPTER 2
WORKING WITH THE TAX LAW
SOLUTIONS TO PROBLEM MATERIALS

<u>Question/ Problem</u>	<u>Learning Objective</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
1	LO 1	Codifications of the Code	New	
2	LO 1	Changes in the Code	New	
3	LO 1	Origination of the tax laws	New	
4	LO 1	Joint Conference Committee	New	
5	LO 1	Missing Code section numbers	New	
6	LO 2, 5	Treaties	Unchanged	6
7	LO 1, 2	Regulation citation	Unchanged	7
8	LO 1, 2	Regulations	Unchanged	8
9	LO 1, 4	Types of Regulations	Unchanged	9
10	LO 1	Revenue Ruling citation	New	
11	LO 1, 4	Authority	Unchanged	11
12	LO 1	Citations	New	
13	LO 1	Using the judicial system	Modified	13
14	LO 1	Small Cases Division	Unchanged	14
15	LO 1	U.S. District Court	Unchanged	15
16	LO 1, 5	Judicial alternatives: trial courts	Modified	16
17	LO 1	U.S. Tax Court	Unchanged	17
18	LO 1	Judicial system	Unchanged	18
19	LO 1	Respondent	New	
20	LO 1	Appellate court and fact-finding determination	Unchanged	20
21	LO 1	Circuit Court of Appeals	New	
22	LO 1	Circuit Court of Appeals	Unchanged	22
23	LO 1, 4	Court decision validity	Unchanged	23
24	LO 2	Appeal to U.S. Supreme Court	Unchanged	24
25	LO 2	Citations	New	
26	LO 1, 2	Abbreviations	Unchanged	26
27	LO 2	Commerce Clearing House citations	Unchanged	27
28	LO 2	Location of decision of U.S. Court of Federal Claims	Unchanged	28
29	LO 1, 2	Cumulative Bulletin	Unchanged	29

<u>Question/ Problem</u>	<u>Learning Objective</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
30	LO 3	Tax research	Unchanged	30
31	LO 6	Tax avoidance versus tax evasion	Unchanged	31
32	LO 1	Subchapters	Unchanged	32
33	LO 1	Location of Revenue Rulings	Modified	33
34	LO 1, 4	Reliability	Unchanged	34
35	LO 1, 2	Publishers' citations	New	
36	LO 6	Tax avoidance versus tax evasion	Modified	36

<u>Research Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
1	Citations	New	
2	Reliability	New	2
3	Internet activity	Unchanged	3

DISCUSSION QUESTIONS

1. The statement is not true. Neither the 1939 nor the 1954 Code substantially changed the tax laws existing on the date of enactment. The major change was the reorganization and renumbering of the tax provisions. So a judicial decision may still be valid. p. 2-1
2. This statement is true because statutory amendments to the tax law are integrated directly into the Code. p. 2-2
3. This statement is generally correct because Federal tax legislation generally starts in the House of Representatives. A tax bill can originate in the Senate when it is attached as a rider to another legislative proposal. p. 2-2
4. When the Senate version of the bill differs from that passed by the House, the Joint Conference Committee, which includes members of both the House Ways and Means Committee and the Senate Finance Committee, is called upon to resolve the differences. The deliberations of the Joint Conference Committee usually produce a compromise between the two versions, which is then voted on by both the House and the Senate. If both bodies accept the bill, it is referred to the President for approval or veto. p. 2-3
5. Not all Code Section numbers are used. When the 1954 Code was drafted, some Section numbers were intentionally omitted so that later changes could be incorporated into the Code without disrupting its organization. When Congress does not leave enough space, subsequent Code Sections are given A, B, C, etc., designations. A good example is the treatment of §§ 280A through 280H. p. 2-4
6. Hoffman, Maloney, Raabe, and Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

March 22, 2012

Mr. Butch Bishop

Tile, Inc.

100 International Drive

Tampa, Florida 33620

Dear Mr. Bishop:

This letter is in response to your request about information concerning a conflict between a U.S. treaty with France and a section of the Internal Revenue Code. The major reason for treaties between the U.S. and certain foreign countries is to eliminate double taxation and to render mutual assistance in tax enforcement.

Section 7852(d) provides that if a U.S. treaty is in conflict with a provision in the Code, neither will take general precedence. Rather, the more recent of the two will have precedence. In your case, the French treaty takes precedence over the Code section.

A taxpayer must disclose on the tax return any positions where a treaty overrides a tax law. There is a \$1,000 penalty per failure to disclose for individuals and a \$10,000 penalty per failure for corporations.

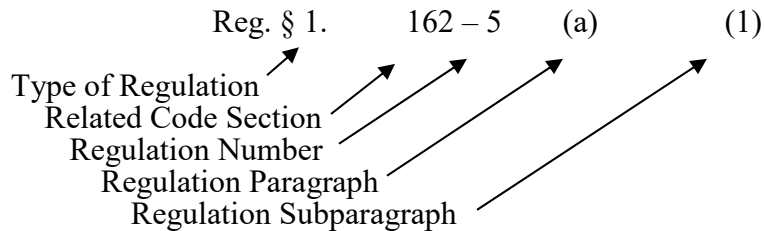
Should you need more information, feel free to contact me.

Sincerely,

Alice Hanks, CPA
Tax Partner

p. 2-18

7. Income tax



p. 2-6

8. Since Regulations interpret the Code, they are arranged in the same sequence as the Code. Regulations are prefixed by a number that designates the type of tax or administrative, procedural, or definitional matter to which they relate. These Regulations would be cited as follows with subparts added for further identification. The subparts have no correlation with the subsections in the Code.

- a. Reg. § 1.351.
- b. Prop. Reg. § 1.2036.
- c. Temp. Reg. § 1.482.
- d. Reg. § 1.1504.

p. 2-6

9. In many Code sections, Congress has given to the “Secretary or his delegate” the authority to prescribe Regulations to carry out the details of administration or otherwise to complete the prevailing administrative rules. Under such circumstances, it almost could be said that Congress is delegating its legislative powers to the Treasury Department. Regulations that are issued pursuant to this type of authority truly possess the force and effect of law and often are called “legislative” Regulations. Examples of “legislative” Regulations include those that address consolidated returns issued under §§ 1501 through 1505 and those that addressed the debt/equity question issued under § 385 (withdrawn).

Legislative Regulations are to be distinguished from “interpretive” Regulations, which purport to rephrase and elaborate on the meaning (i.e., intent of Congress) of a particular Code Section. An example of interpretive Regulations are those issued under § 1031 for like-kind exchanges.

Procedural Regulations are “housekeeping-type” instructions indicating information that taxpayers should provide to the IRS as well as information about the management and conduct of the IRS itself.

The need to distinguish between these three types of Regulations relates to their validity as a tax law source.

pp. 2-26 and 2-27

10. Rev. Rul. 63-144 is the 144th revenue ruling issued during 1963, and it appears on page 129 of Volume 2 of the Cumulative Bulletin in 1963. p. 2-8
11. The items would probably be ranked as follows (from lowest to highest):
 - (1) Letter ruling (valid only to the taxpayer to whom issued).
 - (2) Proposed Regulation (most courts ignore Proposed Regs.).
 - (3) Revenue Ruling.
 - (4) Interpretive Regulation.
 - (5) Legislative Regulation.
 - (6) Internal Revenue Code.

pp. 2-5 to 2-9, 2-26 to 2-27, and Exhibit 2.1

12.
 - a. A Temporary Regulation, with 1 referring to the type of Regulation (i.e., income tax), 444 is the related Code section number, 2 is the subsection number, and T refers to temporary.
 - b. Revenue Procedure number 23, appearing on page 609 of Volume 1 of the Cumulative Bulletin issued in 1994.
 - c. Letter Ruling 48, issued in the 3rd week of 2001.

pp. 2-6 to 2-9

13. Dwain must consider several factors in deciding whether to take the dispute to the judicial system:
 - How expensive will it be?
 - How much time will be consumed?
 - Does he have the temperament to engage in the battle?
 - What is the probability of winning?

Once a decision is made to litigate the issue, the appropriate judicial forum must be selected.

- Tax Court judges have more expertise in tax matters.
- The tax deficiency need not be paid to litigate in the Tax Court. However, if Dwain loses, interest must be paid on any unpaid deficiency.
- If a trial by jury is preferred, the U.S. Tax Court is the appropriate forum.

- The tax deficiency must be paid before litigating in the District Court or the Court of Federal Claims.
- If an appeal to the Federal Circuit is important, Dwain should select the Court of Federal Claims.

A survey of the decisions involving the issues in dispute is appropriate. If a particular court has taken an unfavorable position, that court should be avoided.

pp. 2-10 to 2-15

- 14.
- a. No. There is no appeal from the Small Cases Division.
 - b. No. Deficiency cannot exceed \$50,000.
 - c. Yes.
 - d. No. However, decisions are now published on the Tax Court's website.
 - e. Yes.
 - f. Yes.

pp. 2-10 and 2-11

15. The major advantage of a U.S. District Court is the availability of a trial by a jury. One disadvantage of a U.S. District Court is that the tentative tax deficiency first must be paid before the Court will hear and decide the controversy. In the U.S. Tax Court, the tax need not be paid prior to litigating the controversy (although interest will be due on an unpaid deficiency). Concept Summary 2.1
16. Hoffman, Maloney, Raabe, and Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

July 8, 2012

Mr. Eddy Wall
200 Mesa Drive
Tucson, AZ 85714

Dear Mr. Wall:

You have three alternatives should you decide to pursue your \$323,000 deficiency in the court system. One alternative is the U.S. Tax Court, the most popular forum. Some people believe that the Tax Court judges have more expertise in tax matters. The main advantage is that the U.S. Tax Court is the only trial court where the tax need not be paid prior to litigating the controversy. However, interest will be due on an unpaid deficiency. The interest rate varies from one quarter to the next as announced by the IRS.

One disadvantage of the U.S. Tax Court is the possible delay that might result before a case is decided. The length of delay depends on the Court calendar, which includes a schedule of locations where cases will be tried. Another disadvantage is being unable to have the case heard before a jury.

The major advantage of another alternative, the U.S. District Court, is the availability of a trial by jury. One disadvantage of a U.S. District Court is that the tentative tax deficiency first must be paid before the Court will hear and decide the controversy.

The Court of Federal Claims, the third alternative, is a trial court that usually meets in Washington, D.C. It has jurisdiction for any claim against the United States that is based on the Constitution, any Act of Congress, or any regulation of an executive department. The main advantage of the U.S. Court of Federal Claims occurs when a taxpayer's applicable Circuit Court previously has rendered an adverse decision. Such a taxpayer may select the Court of Federal Claims, since any appeal instead will be to the Federal Circuit. One disadvantage of the Court of Federal Claims is that the tentative deficiency first must be paid before the Court will hear and decide the controversy.

I hope this information is helpful, and should you need more help, please contact me.

Sincerely,

Agnes Reynolds, CPA
Tax Partner

pp. 2-11, 2-12, Figure 2.3, and Concept Summary 2.1

17. The U.S. Tax Court hears only tax cases and is the most popular forum for tax cases. Some people suggest that the Tax Court has more expertise in tax matters. A taxpayer does not have to pay the tax deficiency assessed by the IRS before trial, but a taxpayer may deposit a cash bond to stop the running of interest. Appeals from a Tax Court are to the appropriate U.S. Court of Appeals. A taxpayer may not obtain a jury trial in the U.S. Tax Court. pp. 2-12 and 2-13
18. See Figure 2.3 and Concept Summary 2.1.
 - a. There is no appeal by either the taxpayer or the IRS from a decision of the Small Cases Division of the U.S. Tax Court. p. 2-10
 - b. The first appeal would be to the Sixth Circuit Court of Appeals. Further appeal would be to the U.S. Supreme Court. p. 2-12 and Figures 2.3 and 2.4
 - c. Same as b. above. p. 2-12 and Figures 2.3 and 2.4
 - d. The appeal would be to the Federal Circuit Court of Appeals and then to the U.S. Supreme Court. p. 2-12 and Figures 2.3 and 2.4
19. The term "respondent" is a synonym for defendant, who is the party against whom a suit is brought. p. 2-11
20. Both the Code and the Supreme Court indicate that the Federal appellate courts are bound by findings of facts unless they are clearly erroneous. Thus, the *role* of appellate courts is limited to a review of the record of trial compiled by the trial courts. Thus, the appellate process usually involves a determination of whether the trial court applied the proper law in arriving at its decision. Rarely will an appellate court disturb a lower court's fact-finding determination. p. 2-13

- 21. a. 9th.
- b. 5th.
- c. 10th.
- d. 8th.
- e. 11th.

Figure 2.4

- 22. The appropriate Circuit Court of Appeals for an appeal depends on where the litigation originated. For example, an appeal from Texas would go to the Fifth Circuit Court of Appeals, or an appeal from Colorado would go to the Tenth Circuit Court of Appeals. p. 2-14 and Figure 2.4
- 23. a. If the taxpayer chooses a U.S. District Court as the trial court for litigation, the U.S. District Court of Wyoming would be the forum to hear the case. Unless the prior decision has been reversed on appeal, one would expect the same court to follow its earlier holding. pp. 2-10 and 2-27
- b. If the taxpayer chooses the U.S. Court of Federal Claims as the trial court for litigation, the decision that previously was rendered by this Court should have a direct bearing on the outcome. If the taxpayer selects a different trial court (i.e., the appropriate U.S. District Court or the U.S. Tax Court), the decision that was rendered by the U.S. Court of Federal Claims would be persuasive, but not controlling. It is, of course, assumed that the result that was reached by the U.S. Court of Federal Claims was not reversed on appeal. pp. 2-10, 2-14, and 2-27
- c. The decision of a U.S. Circuit Court of Appeals will carry more weight than will one that was rendered by a trial court. Since the taxpayer lives in California, however, any appeal from a U.S. District Court or the U.S. Tax Court would go to the Ninth Circuit Court of Appeals (see Figure 2.2). Although the Ninth Circuit Court of Appeals might be influenced by what the Second Circuit Court of Appeals has decided, it is not compelled to follow such holding. pp. 2-10, 2-14, 2-27, and Figure 2.4
- d. Because the U.S. Supreme Court is the highest appellate court, one can place complete reliance upon its decisions. Nevertheless, one should investigate any decision to see whether the Code has been modified with respect to the result that was reached. There also exists the rare possibility that the Court may have changed its position in a later decision. pp. 2-10, 2-15, 2-27, and Figure 2.3
- e. When the IRS acquiesces to a decision of the U.S. Tax Court, it agrees with the result that was reached. As long as such acquiescence remains in effect, taxpayers can be assured that this represents the position of the IRS on the issue that was involved. Keep in mind, however, that the IRS can change its mind and can, at any time, withdraw the acquiescence and substitute a nonacquiescence. p. 2-16
- f. The issuance of a nonacquiescence usually reflects that the IRS does not agree with the result that was reached by the U.S. Tax Court. Consequently, taxpayers are placed on notice that the IRS will continue to challenge the issue that was involved. p. 2-16

24. There is no automatic right of appeal to the U.S. Supreme Court. Appeal is by *writ of certiorari*. If the Court agrees to hear the dispute, it will grant the *writ* (*Cert. granted*). Most often, the highest court will deny jurisdiction (*Cert. denied*). p. 2-15
25. a. This citation is to a regular decision of the U.S. Tax Court that was issued in 1950. The decision can be found in Volume 14, page 74, of the Tax Court of the United States Report, published by the U. S. Government Printing Office. pp. 2-15 to 2-18 and Concept Summary 2.2
- b. This citation is for a decision of the U. S. Fifth Circuit Court of Appeals that was rendered in 1979. The decision can be found in Volume 592, page 1251, of the Federal Reporter, Second Series (F. 2d), published by West Publishing Company. pp. 2-15 to 2-17 and Concept Summary 2.2
- c. This citation is for a decision of the U.S. Sixth Circuit Court of Appeals that was rendered in 1995. The decision can be found in Volume 1 for 1995, paragraph 50,104 of U.S. Tax Cases, published by Commerce Clearing House. pp. 2-15 to 2-17 and Concept Summary 2.2
- d. This citation is for a decision of the U.S. Sixth Circuit Court of Appeals that was rendered in 1995. The decision can be found in Volume 75, page 110, of the Second Series of American Federal Tax Reports, published by RIA. pp. 2-15 to 2-17 and Concept Summary 2.2
- e. This citation is for a decision of the U.S. District Court of Texas that was rendered in 1963. The decision can be found in Volume 223, page 663, of the Federal Supplement Series, published by West Publishing Company. pp. 2-15 to 2-17 and Concept Summary 2.2
26. a. CA-2. An abbreviation that designates the U.S. Second Circuit Court of Appeals. pp. 2-15 to 2-17
- b. Fed.Cl. An abbreviation for the Federal Claims Reporter published by West Publishing Company. It includes the decisions of the U.S. Court of Federal Claims and begins with Volume 27. pp. 2-15 to 2-17
- c. aff'd. An abbreviation for "affirmed," which indicates that a lower court decision was affirmed (approved of) on appeal. p. 2-13
- d. rev'd. An abbreviation for was "reversed," which indicates that a lower court decision was reversed (disapproved of) on appeal. p. 2-13
- e. rem'd. An abbreviation for "remanded," which indicates that a lower court decision is being sent back by a higher court for further consideration. p. 2-13
- f. Cert. denied. The Writ of Certiorari has been denied by the U.S. Supreme Court. This writ means that the Court will not accept an appeal from a lower court and, therefore, will not consider the case further. p. 2-15
- g. Acq. An abbreviation for "acquiescence" (agreement). The IRS follows a policy of either acquiescing or nonacquiescing to certain decisions. p. 2-16
- h. B.T.A. An abbreviation for the Board of Tax Appeals. From 1924 to 1942, the U.S. Tax Court was designated as the Board of Tax Appeals. p. 2-16

- i. USTC. U.S. District Court, U.S. Circuit Court of Appeals, U.S. Court of Federal Claims, and U.S. Supreme Court decisions that address Federal tax matters are reported in the Commerce Clearing House U.S. Tax Cases (USTC) and the RIA (formerly P-H) American Federal Tax Reports (AFTR) series. pp. 2-16, 2-17, and Concept Summary 2.2
 - j. AFTR. See the solution to i. above. pp. 2-16, 2-17, and Concept Summary 2.2
 - k. F.3d. All of the decisions (both tax and nontax) of the U.S. Claims Court (before October 1982) and the U.S. Circuit Court of Appeals are published by West Publishing Company in a reporter that is designated as the Federal Reporter, Second Series (F.2d). Volume 999, published in 1993, is the last volume of the Federal Second Series. It is followed by the Federal Third Series (F.3d). p. 2-17 and Concept Summary 2.2
 - l. F.Supp. Most Federal District Court decisions, dealing with both tax and nontax issues, are published by West Publishing Company in their Federal Supplement Series (F.Supp.). p. 2-16 and Concept Summary 2.2
 - m. USSC. An abbreviation for the U.S. Supreme Court. p. 2-17
 - n. S.Ct. West Publishing Company publishes all of the U.S. Supreme Court decisions in its Supreme Court Reporter (S.Ct.). p. 2-17 and Concept Summary 2.2
 - o. D.Ct. An abbreviation for a U.S. District Court decision. p. 2-17
27. a. None.
- b. USTC.
- c. USTC.
- d. USTC.
- e. TCM.
- pp. 2-16, 2-17, and Concept Summary 2.2
28. Decisions of the U.S. Court of Federal Claims (formerly named the Claims Court) are published in the USTCs, AFTRs, and the West Publishing Co. reporter called the Federal Reporter, Second Series (F.2d) (before October 1982) and Claims Court Reporter (beginning October 1982 through October 30, 1992). The name of the U.S. Court of Federal Claims was changed from the Claims Court effective October 30, 1992. Currently, this court's decision are published in the Federal Claims Reporter. pp. 2-16, 2-17, and Concept Summary 2.2
29. a. Yes. Exhibit 2.1
- b. No. Not published there. Concept Summary 2.2
- c. No. Published by private publishers. pp. 2-8, 2-9, and Exhibit 2.1
- d. Yes. p. 2-8 and Exhibit 2.1
- e. Yes. p. 2-7 and Exhibit 2.1

- f. No. pp. 2-16, 2-17, and Concept Summary 2.2
 - g. Yes, when major tax legislation has been enacted by Congress. Footnote 10
 - h. Yes. p. 2-16
 - i. No. Concept Summary 2.2
30. After understanding the relevant facts:
- Yvonne may begin with the index volumes of the available tax services: RIA, CCH, BNA Portfolios, etc.
 - A key word search on an online service could be helpful—WESTLAW, LEXIS, CCH, and RIA Checkpoint.
 - Yvonne may employ a key word search of a CD-ROM and browse through a tax service, IRS publications, etc. West Publishing, CCH, Kleinrock, and RIA offer CD-ROM products.
 - Yvonne could consult CCH's Federal Tax Articles to locate current appropriate articles written about alimony payments. RIA's Tax Service also has a topical "Index to Tax Articles" section that is organized using the RIA paragraph index system.
 - Yvonne may consult The Accounting & Tax Index which is available in three quarterly issues and a cumulative year-end volume covering all four quarters.
 - Up-to-date information may be found on the World Wide Web feature of the Internet. Various legal, accounting, and financial gateways can be found by clicking on highlighted words or phrases.
- pp. 2-19 to 2-30
31. Denis Healy says "the difference between tax avoidance and tax evasion is the thickness of a prison wall." A fine line exists between legal tax planning and illegal tax planning—tax avoidance versus tax evasion. Tax avoidance is merely tax minimization through legal techniques. In this sense, tax avoidance is the proper objective of all tax planning. Tax evasion, while also aimed at the elimination or reduction of taxes, connotes the use of subterfuge and fraud as a means to an end. p. 2-33

PROBLEMS

- 32. d. p. 2-4
- 33. d. Exhibit 2.1
- 34. a. Code section.
- b. Legislative Regulation.
- c. Recent Temporary Regulation.
- d. Interpretive Regulation.

- e. Revenue Ruling.
- f. Letter Ruling.
- g. Proposed Regulation.

pp. 2-26, 2-27, and Exhibit 2.1

- 35.
- a. U.S.
 - b. CCH.
 - c. W.
 - d. RIA.
 - e. CCH.
 - f. RIA.
 - g. U.S.
 - h. U.S.
 - i. W.
 - j. U.S.

pp. 2-15 to 2-17 and Concept Summary 2.2

- 36.
- a. E.
 - b. E.
 - c. A.
 - d. A.
 - e. A.

pp. 2-30 to 2-34

Proposed solutions to the **Research Problems** and the **Appendix E Tax Return Problems** are found at the Instructor Companion Site for the textbook (www.cengage.com/taxation/swft). Previously, these items were a part of the Instructor's Guide for the text, but now they are available online at this site as free-standing documents, as well as on the Instructor's Resource CD.

Contents

Problem 1 – Karl F. and Jeanne S. Wheat – Individual Income Tax Return	E-1
Problem 2 – Robert (Bob) S. and Sally D. Grove – Individual Income Tax Return	E-28
Problem 3 – Pet Kingdom – Form 1120 Corporate Tax Return	E-53
Problem 4 – By the Numbers – Form 1120 Corporate Tax Return	E-67
Problem 5 – Rock the Ages – Form 1065 tax return	E-75
Problem 6 – Chocolat, Inc – Form 1120S	E-88
Problem 7 – Daniel and Lisa Ward – Form 709 Tax Returns	E-95
Problem 8 – Pam Butler – Form 706 Tax Return	E-104
Problem 9 – Green – Form 1041 Tax Return	E-118

Problem 1 – Karl F. and Jeanne S. Wheat**Notes**

[References correspond to the number used in the fact pattern.]

1. Karl is self-employed and all of the business expenses listed should be reported on Schedule C. Use Part I of Form 4562 to apply §179 expensing for the copier (\$300), waiting room furniture (\$3,600), laptop computer (\$2,100), and camera (\$1,200).
2. Depreciation on the Durango under the MACRS method (use Part V of Form 4562) is computed as:

Cost	\$31,000
First year percentage for 5-year property (Table 8.1, Chap. 8)	<u>20%</u>
First year depreciation deduction	\$ 6,200
Business use	<u>92%</u>
Depreciation related to business use	<u>\$ 5,704</u>

However, as the first year recovery limitation is \$3,260, the depreciation claimed cannot exceed \$2,999 ($\$3,260 \times 92\%$).

Deductible expenses under the actual expense method total \$8,914, which is the sum of depreciation of \$2,999 + deductible operating costs of \$5,405 [$92\% \times \$5,875$, which is the sum of ($\$3,100 + \$1,500 + \$820 + \$225 + \$140 + \90)] + business parking of \$510.

Deductible expenses under the mileage method total \$8,842, which is the sum of \$7,578 of mileage [$\$4,392$ (8,612 business miles \times \$0.51 mileage rate allowed for Jan-June 2011) + $\$3,186$ (5,740 business miles \times \$0.555 mileage rate allowed for July-Dec 2011)] + \$510 of parking + deductible interest on the car loan of \$754 ($92\% \times \820). Since the actual expense method yields a higher deduction than does the mileage method, the actual expense method is used.

[Note: If *H&R Block At Home* is used, the program will compare the actual cost method to the mileage method over the expected period of use. If the expected period of use is 6 years, the program estimates that the mileage method will result in greater deductions over that time frame. Nevertheless, since the actual cost method results in a greater deduction this year, the actual cost method is chosen in *H&R Block At Home* and the solution reflects that.]

No deduction is allowed for the \$350 in fines caused by the traffic violations.

3. The receptionist is not technically Karl's employee (she is paid by the landlord) but she serves in that capacity. Consequently, the \$28 gift is deductible. [Nominal charges for gift wrapping are disregarded when imposing the \$25 limitation.]

Karl's travel expenses are allowed as a deduction but are subject the limitation for business meals and entertainment. Thus, deductible business meals total \$420 ($50\% \times \840) and deductible business entertainment totals \$255 ($50\% \times \510).

The premiums on disability insurance are not deductible. However, the self-employed health insurance premiums are deductible on line 29, page 1 of Form 1040.

4. The IRA contribution is a deduction *for* AGI and is listed on line 32 of page 1 of Form 1040.

Jeanne's other expenses are miscellaneous itemized deductions subject to the 2%-of-AGI floor. In terms of deducting the use of the Chevrolet Malibu in employment-related activities, the automatic (standard) mileage method is permissible. Although the actual cost method is used for the Durango (see item 2), different cars are involved. Under the mileage method, the deduction is \$498 [$\209 (410 business miles \times \$0.51 mileage rate allowed for Jan-June 2011) + $\$289$ (520 business miles \times \$0.555 mileage rate allowed for July-Dec 2011)].

Jeanne's total employment-related expenses which are treated as miscellaneous itemized deductions on Schedule A are as follows:

Job hunting expense	\$ 720
Professional journal	120
Professional dues	90
Continuing education	350
Mileage	<u>498</u>
Total employment-related expenses	\$1,778
Less 2% of AGI	<u>(1,418)</u>
Amount deductible on Schedule A	<u>\$ 360</u>

5. Gene Isaacson can be claimed as a dependent by the Wheats for 2011. It does not matter how long he lived during the year as long as he qualified as a dependent at the time of his death. All of Gene's medical expenses (i.e. \$11,800) can be claimed by the Wheats for 2011, as it is the year of payment that controls deductibility.

Funeral expenses are not deductible for Federal income tax purposes.

6. Under §1014, Jeanne receives Gene's property with a new income tax basis equal to its fair market value at death. For the house and land, this results in a step-up in basis to \$220,000 and \$50,000. For the furniture and appliances, however, a step-down (\$14,000) occurs. In computing depreciation, the new basis under §1014 controls.

Use Table 8.1 in the text for depreciating the personalty (furniture and appliances) and Table 8.6, Column 3, for residential realty (rental home). [For depreciation purposes, the property is deemed placed in service as of March 1—when it was first advertised for rent.] Using Form 4562, the depreciation totals \$9,133 for 2011, comprised of \$2,800 (20% \times \$14,000) for the furniture and \$6,333 (2.879% \times \$220,000) for the building. The land is not depreciable.

Repairs of \$720 and newspaper advertising of \$360 are deductible in computing net rental income.

7. Rent income is summarized below.

First and last month's rent (2 \times \$2,400)	\$ 4,800
May through November (7 \times \$2,400)	<u>16,800</u>
	<u>\$21,600</u>

[Note: If you are using *H&R Block At Home*, input 365 in the "days owned" box and in the "days rented" box. Otherwise, the program will apportion the expenses inappropriately.]

The rent for December is not taxed until 2012 since it was not received until then.

The damage deposit is not taxed and becomes income only if and when it is forfeited (i.e., applied towards damages caused by the tenant).

All expenses except the paving assessment are deductible and should be reported on Schedule E. The paving assessment should be added to the cost basis of the land.

8. Karl has a \$10,000 loss from worthless securities. Although it appears that the loss occurs within 12 months (i.e. early December of 2010 to September 2011), under § 165(g)(1) the loss is treated as occurring on the last day of the year of worthlessness. Thus, Karl has a \$10,000 long-term capital loss which he reports on Schedule D of Form 1040.
9. When a taxpayer cannot identify the block of stock that is sold, a FIFO approach is applied. Therefore, the Wheats sold the shares purchased in 2007. Consequently, their gain is \$5,000 [\$17,500 (selling price) – \$12,500 (basis)]. The 500 shares they still own were acquired in 2009.
10. Jeanne’s basis in the coin collection is controlled by the gift rules of §1015. Therefore, her basis for gain is her mother’s basis of \$9,000. In this case, her basis for loss is also \$9,000 [FMV on the date of the gift (\$18,000) is not lower than basis (\$9,000)]. The measure of a theft loss cannot exceed the lesser of basis (\$9,000) or FMV on date of the theft (\$24,000)—see Concept Summary 7–3 on p. 7-15 in the text. If Jeanne’s loss is \$9,000 and the insurance recovery is \$10,000, no loss results. Instead, Jeanne has a \$1,000 long-term capital gain from a collectible—reported on Form 4684 and line 11 of Schedule D. As to the netting process involving gains from collectibles and capital losses, see pp.3-26 and 3-27 in Chapter 3.
11. Under the application of §1014, Jeanne’s basis in the lot on Joplin Road is \$19,000—FMV on the date of Violet’s death. On the later sale of the property, Jeanne received \$19,700 of consideration since the buyer relieved her of the \$700 in liabilities (back taxes in arrears). Therefore, Jeanne has a long-term capital gain of \$700. Jeanne cannot deduct the taxes because she did not pay them.
12. The presumption is that these “gifts” are compensation for services rendered (i.e., referrals) or to be rendered in the future. It does not matter that there was no obligation or prior agreement to make the payments [see the discussion of the *Duberstein* case on p. 5-5 of the text.] Karl must include \$7,200 in his gross income for 2011—include in Schedule C. The \$900 received on January 4, however, is taxed in 2012.
13. Under the tax benefit rule, the state tax refund is income, reported on line 10, page 1 of Form 1040.

The interest on Missouri bonds is nontaxable, but it must be listed on line 8b, page 1, of Form 1040.

The qualified dividends are subject to the same tax rate as LTCGs—line 44 of Form 1040.

The cash gifts from Karl’s parents are nontaxable.

The gambling transactions cannot be netted. The winnings are reported on line 21 of Form 1040 as income. The losses are reported on Schedule A as miscellaneous itemized deductions but are not subject to the 2% of AGI floor.

14. The garage sale netted a realized loss of \$16,300 [\$9,200 proceeds – \$25,500 cumulative bases]. This realized loss is personal and therefore not tax deductible. The \$9,200 proceeds are essentially a nontaxable return of capital.

The medical expenses eligible for deduction total \$14,357 [\$1,300 medical expenses + \$1,200 dental expenses + \$11,800 of Gene's medical expenses + \$57 for medical mileage [\$29 (150 business miles x \$0.19 mileage rate allowed for Jan-June 2011) + \$28 (120 business miles x \$0.235 mileage rate allowed for July-Dec 2011)]]].

The charitable deduction is based on the amount paid and not on the pledge year involved. Thus, the full \$3,600 is deductible in 2011. Plus, the Wheats can deduct \$45 (320 miles x \$0.14) for the use of the Malibu for charitable purposes.

15. The Wheats should claim two personal exemptions for themselves and dependency exemptions for Gene, Trace and Trevor. Since Trace saves his earnings for future college expenses and is not providing any of his support, he meets the definition of a qualifying child. The income he earned does not matter since there is no gross income test for a dependent who meets the definition of a qualifying child.

Appendix E – Solutions to Research Problems

Form 1040 U.S. Individual Income Tax Return	Department of the Treasury—Internal Revenue Service (99) 2011 OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space. See separate instructions.		
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning _____, 2011, ending _____, 20				
Your first name and initial Karl F		Last name Wheat		
Your social security number 111-11-1111		If a joint return, spouse's first name and initial Jeanne S		
Last name Wheat		Spouse's social security number 123-45-6781		
Home address (number and street). If you have a P.O. box, see instructions. 13071 Forestview Drive		Apt. no.		
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Columbia MO 65201		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. <input type="checkbox"/> You <input type="checkbox"/> Spouse		
Foreign country name		Foreign province/country		
Foreign postal code		Make sure the SSN(s) above and on line 6c are correct.		
Filing Status				
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 instr.) 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				
Check only one box.				
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				
c Dependents:				
(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)
Gene	Isaacson	123-45-6784	Parent	
Trace	Wheat	123-45-6788	Son	
Trevor	Wheat	123-45-6789	Son	
If more than four dependents, see instructions and check here <input type="checkbox"/>				
d Total number of exemptions claimed				Add numbers on lines above
				5
Income				
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 1,400				
9a Ordinary dividends. Attach Schedule B if required				
b Qualified dividends				
9b 600				
10 Taxable refunds, credits, or offsets of state and local income taxes				
11 Alimony received				
12 Business income or (loss). Attach Schedule C or C-EZ				
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here				
13 -3,000				
14 Other gains or (losses). Attach Form 4797				
14				
15a IRA distributions				
15a Taxable amount				
15b 0				
16a Pensions and annuities				
16a Taxable amount				
16b 0				
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E				
17 6,127				
18 Farm income or (loss). Attach Schedule F				
18 0				
19 Unemployment compensation				
19				
20a Social security benefits				
20a Taxable amount				
20b 0				
21 Other income. List type and amount				
21 GAMBLING 1,000				
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income				
22 91,210				
Adjusted Gross Income				
23 Educator expenses				
23 0				
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ				
24 0				
25 Health savings account deduction. Attach Form 8889				
25 0				
26 Moving expenses. Attach Form 3903				
26 0				
27 Deductible part of self-employment tax. Attach Schedule SE				
27 3,701				
28 Self-employed SEP, SIMPLE, and qualified plans				
28 8,000				
29 Self-employed health insurance deduction				
29 4,600				
30 Penalty on early withdrawal of savings				
30 0				
31a Alimony paid b Recipient's SSN				
31a				
32 IRA deduction				
32 4,000				
33 Student loan interest deduction				
33				
34 Tuition and fees. Attach Form 8917				
34				
35 Domestic production activities deduction. Attach Form 8903				
35 0				
36 Add lines 23 through 35				
36 20,301				
37 Subtract line 36 from line 22. This is your adjusted gross income				
37 70,909				
KIA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.				
Form 1040 (2011)				

Form 1040 (2011) Karl F Wheat 111-11-1111 Page 2

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	70,909
	39a	Check <input type="checkbox"/> You were born before January 2, 1947, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1947, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a <input type="checkbox"/> 39b		
Standard Deduction for— • 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, \$5,800 Married filing jointly or Qualifying widow(er), \$11,600 Head of household, \$8,500	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	25,400
	41	Subtract line 40 from line 38	41	45,509
	42	Exemptions. Multiply \$3,700 by the number on line 6d	42	18,500
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	27,009
	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"/> 962 election	44	3,114
	45	Alternative minimum tax (see instructions). Attach Form 6251	45	0
	46	Add lines 44 and 45	46	3,114
	47	Foreign tax credit. Attach Form 1116 if required	47	0
	48	Credit for child and dependent care expenses. Attach Form 2441	48	
	49	Education credits from Form 8863, line 23	49	
	50	Retirement savings contributions credit. Attach Form 8880	50	0
	51	Child tax credit (see instructions)	51	
	52	Residential energy credits. Attach Form 5695	52	
	53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	0
	54	Add lines 47 through 53. These are your total credits	54	0
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	3,114
Other Taxes	56	Self-employment tax. Attach Schedule SE	56	6,435
	57	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57	0
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	0
	59a	Household employment taxes from Schedule H	59a	0
	59b	First-time homebuyer credit repayment. Attach Form 5405 if required	59b	0
	60	Other taxes Enter code(s) from instructions	60	
	61	Add lines 55 through 60. This is your total tax	61	9,549
Payments	62	Federal income tax withheld from Forms W-2 and 1099	62	1,320
	63	2011 estimated tax payments and amount applied from 2010 return	63	8,800
	64a	Earned income credit (EIC)	64a	
	64b	Nontaxable combat pay election	64b	
	65	Additional child tax credit. Attach Form 8812	65	
	66	American opportunity credit from Form 8863, line 14	66	
	67	First-time homebuyer credit from Form 5405, line 10	67	0
	68	Amount paid with request for extension to file	68	
	69	Excess social security and tier 1 RRTA tax withheld	69	0
	70	Credit for federal tax on fuels. Attach Form 4136	70	
	71	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71	0
	72	Add lines 62, 63, 64a, and 65 through 71. These are your total payments	72	10,120
Refund	73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73	571
	74a	Amount of line 73 you want refunded to you. If Form 8888 is attached, check here	74a	409
Direct deposit? See instructions.	b	Routing number XXXXXXXXXX	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	d	Account number XXXXXXXXXXXXXXXXXXXX		
	75	Amount of line 73 you want applied to your 2012 estimated tax	75	0
Amount You Owe	76	Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions	76	
	77	Estimated tax penalty (see instructions)	77	162
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 checked="" 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 Ins Claims Adjustor	Daytime phone number 555-555-5555
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation Dietician	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 PTIN
	Firm's name	Firm's EIN		
	Firm's address	Phone no.		

**SCHEDULE A
(Form 1040)**

Itemized Deductions

OMB No. 1545-0074

2011
Attachment
Sequence No. **07**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule A (Form 1040).**

Name(s) shown on Form 1040
Karl F Wheat

Your social security number
111-11-1111

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see instructions)	1	14,357	
	2 Enter amount from Form 1040, line 38 . . . 2 70,909			
	3 Multiply line 2 by 7.5% (.075)	3	5,318	
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		9,039
Taxes You Paid	5 State and local (check only one box):			
	a. <input checked="" type="checkbox"/> Income taxes, or	5	3,456	
	b. <input type="checkbox"/> General sales taxes			
	6 Real estate taxes (see instructions)	6	3,800	
	7 Personal property taxes	7	0	
	8 Other taxes. List type and amount ▶	8	0	
	9 Add lines 5 through 8	9		7,256
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098	10	4,200	
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11	0	
	12 Points not reported to you on Form 1098. See instructions for special rules	12	0	
	13 Mortgage insurance premiums (see instructions)	13	0	
	14 Investment interest. Attach Form 4952 if required. (See instructions)	14		
	15 Add lines 10 through 14	15		4,200
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	3,645	
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	0	
	18 Carryover from prior year	18	0	
	19 Add lines 16 through 18	19		3,645
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20		0
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶ Form 2106	21	1,778	
	22 Tax preparation fees	22		
	23 Other expenses—investment, safe deposit box, etc. List type and amount ▶	23	0	
	24 Add lines 21 through 23	24	1,778	
	25 Enter amount from Form 1040, line 38 . . . 25 70,909			
	26 Multiply line 25 by 2% (.02)	26	1,418	
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27		360
Other Miscellaneous Deductions	28 Other—from list in the instructions. List type and amount ▶	28	Gambling Losses 900	900
Total Itemized Deductions	29 Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40	29		25,400
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here ▶ <input type="checkbox"/>			

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2011
Attachment
Sequence No. **09**

Name of proprietor
Karl F Wheat

A Principal business or profession, including product or service (see instructions)
Insurance Claims Adjuster

B Enter code from instructions
524290

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), (see instr.)

E Business address (including suite or room no.) ► 1202 Brentwood Avenue, Suite 326
City, town or post office, state, and ZIP code Columbia MO 65201

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ►

G Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses . . . Yes No

H If you started or acquired this business during 2011, check here . . . ► Yes No

I Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) Yes No

J If "Yes," did you or will you file all required Forms 1099? Yes No

Part I Income			
1a Merchant card and third party payments. For 2011, enter -0-	1a	0	
b Gross receipts or sales not entered on line 1a (see instructions)	1b	82,000	
c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. Caution. See instr. before completing this line	1c	0	
d Total gross receipts. Add lines 1a through 1c	1d	82,000	
2 Returns and allowances plus any other adjustments (see instructions)	2		
3 Subtract line 2 from line 1d	3	82,000	
4 Cost of goods sold (from line 42)	4	0	
5 Gross profit. Subtract line 4 from line 3	5	82,000	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	7,200	
7 Gross income. Add lines 5 and 6	7	89,200	

Part II Expenses.		Enter expenses for business use of your home only on line 30.	
8 Advertising	8		
9 Car and truck expenses (see instructions)	9	5,915	
10 Commissions and fees	10		
11 Contract labor (see instructions)	11		
12 Depletion	12		
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	10,199	
14 Employee benefit programs (other than on line 19)	14		
15 Insurance (other than health)	15	1,400	
16 Interest:			
a Mortgage (paid to banks, etc.)	16a		
b Other	16b		
17 Legal and professional services	17		
18 Office expense (see instructions)	18		740
19 Pension and profit-sharing plans	19		
20 Rent or lease (see instructions):			
a Vehicles, machinery, & equipment	20a		0
b Other business property	20b		11,600
21 Repairs and maintenance	21		
22 Supplies (not included in Part III)	22		
23 Taxes and licenses	23		450
24 Travel, meals, and entertainment:			
a Travel	24a		930
b Deductible meals and entertainment (see instructions)	24b		875
25 Utilities	25		4,300
26 Wages (less employment credits)	26		
27a Other expenses (from line 48)	27a		398
b Reserved for future use	27b		
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		36,807
29 Tentative profit or (loss). Subtract line 28 from line 7	29		52,393
30 Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30		0
31 Net profit or (loss). Subtract line 30 from line 29.	31		52,393
• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2.			
• If you entered an amount on line 1c, see instr. Estates and trusts, enter on Form 1041, line 3.			
• If a loss, you must go to line 32.			
32 If you have a loss, check the box that describes your investment in this activity (see instructions).			
• If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. If you entered an amount on line 1c, see the instructions for line 31.			
• If you checked 32b, you must attach Form 6198. Your loss may be limited.			
	32a	<input checked="" type="checkbox"/>	All investment is at risk.
	32b	<input type="checkbox"/>	Some investment is not at risk.

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a Cost b Lower of cost or market c Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36 Purchases less cost of items withdrawn for personal use	36	
37 Cost of labor. Do not include any amounts paid to yourself	37	
38 Materials and supplies	38	
39 Other costs	39	
40 Add lines 35 through 39	40	0
41 Inventory at end of year	41	
42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	0

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____

44 Of the total number of miles you drove your vehicle during 2011, enter the number of miles you used your vehicle for:
 a Business _____ b Commuting (see instructions) _____ c Other _____

45 Was your vehicle available for personal use during off-duty hours? Yes No

46 Do you (or your spouse) have another vehicle available for personal use? Yes No

47a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

Coffee Service	280
Magazine Subscriptions	90
Business Gift	28
48 Total other expenses. Enter here and on line 27a	48 398

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses ▶ Attach to Form 1040 or Form 1040NR. ▶ See instructions for Schedule D (Form 1040). ▶ Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.	OMB No. 1545-0074 2011 Attachment Sequence No. 12 Your social security number 111-11-1111
Name(s) shown on return Karl F Wheat		

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Complete Form 8949 before completing line 1, 2, or 3. This form may be easier to complete if you round off cents to whole dollars.	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
1 Short-term totals from all Forms 8949 with box A checked in Part I	0	(0)	0	0
2 Short-term totals from all Forms 8949 with box B checked in Part I	0	(0)	0	0
3 Short-term totals from all Forms 8949 with box C checked in Part I	0	(0)	0	0
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824			4	0
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1			5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions.			6	(0)
7 Net short-term capital gain or (loss) . Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on next page			7	0

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

Complete Form 8949 before completing line 8, 9, or 10. This form may be easier to complete if you round off cents to whole dollars.	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
8 Long-term totals from all Forms 8949 with box A checked in Part II	0	(0)	0	0
9 Long-term totals from all Forms 8949 with box B checked in Part II	0	(0)	0	0
10 Long-term totals from all Forms 8949 with box C checked in Part II	37,200	(41,500)	0	-4,300
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824			11	0
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1			12	
13 Capital gain distributions. See the instructions			13	0
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions			14	(0)
15 Net long-term capital gain or (loss) . Combine lines 8 through 14 in column (h). Then go to Part III on page 2			15	-4,300

Part III Summary

16 Combine lines 7 and 15 and enter the result	16	-4,300
<ul style="list-style-type: none"> • If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22. 		
17 Are lines 15 and 16 both gains? <input type="checkbox"/> Yes. Go to line 18. <input type="checkbox"/> No. Skip lines 18 through 21, and go to line 22.		
18 Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions ▶	18	
19 Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet in the instructions ▶	19	
20 Are lines 18 and 19 both zero or blank? <input type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below. <input type="checkbox"/> No. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.		
21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of: <ul style="list-style-type: none"> • The loss on line 16 or • (\$3,000), or if married filing separately, (\$1,500) } Note. When figuring which amount is smaller, treat both amounts as positive numbers.	21	(3,000)
22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? <input checked="" type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <input type="checkbox"/> No. Complete the rest of Form 1040 and Form 1040NR.		

