

Practice Scenario 12

Use the taxpayer information provided in the following section to prepare a tax return. After you complete the return, review the “Lessons Learned” section to see how you did.

Client Information

Baxter A. (12-16-1970, 400-00-4012) and Adelle P. (10-10-1971, 410-00-4012) Nelam are married homeowners and live at 213 Reserve Road, Your City, YS and ZIP Code. Baxter is an accountant (W-2 shown). Baxter’s employer offers and Baxter participates in a subsidized health care plan. Adelle is self-employed and a half-time student at State College this year. Adelle tells you her education expenses were paid with a tax-free scholarship (Form 1098-T shown). The Nelams prepared their return last year and would like Jackson Hewitt to do it for them this year.

Their daytime and evening home phone number is 847-000-7170. The Nelams agree to give you their e-mail address so they can use *My JH* to check on the status of their return and store documents online. Their e-mail address is *baapn@nomail.com*.

Baxter and Adelle’s son, Rick B. Nelam (06-20-1998, 401-00-4012), lived with them the entire year and they provided all of his support. Adelle’s widowed mother, Sandra Houghton (08-13-1943, 403-00-4012), also lived with them the entire year. They provided most of Sandra’s support because her Social Security income for the year was only \$3,452.

Baxter’s daughter, Brenda A. Nelam (02-06-1997, 402-00-4012), lived with her mother, Katherine Friedman (420-00-4012), the entire year. Katherine provided more than half of Brenda’s support. Katherine provided Baxter with the Form 8332 shown, to allow him to claim Brenda as a dependent. Baxter and Katherine have been divorced since January 1997. He makes payments to her of \$1,000 per month in child support and \$700 in alimony. The child support payments will stop when Brenda reaches age 18 or marries, and the alimony payments will stop if Katherine remarries or dies. These payments are specified in the divorce decree, as well as Baxter’s ability to claim Brenda as a dependent every other year.

Adelle and Baxter started a business for Adelle to operate this year. Adelle began selling quilts and blankets online in January of this year. Her books and records are maintained using the cash accounting method. She paid \$600 for her business license and to register her business name, *MyTyme Quilts*. She does not maintain an inventory, but sells the quilts and blankets on consignment through a group of quilters that live in her area. The business did well from the beginning and by the end of the second quarter, Adelle began making federal and state estimated tax payments.

Adelle sold 228 items online during the year, plus two quilts locally. She received \$361 in cash for the local sales. Her online sales were paid for through an online payment service that handles credit card processing for sellers (Form 1099-K shown). Her transaction and processing fees totaled \$1,787.65. She had returns of \$1,210.15 during the year.

Adelle sent the following federal and state estimated tax payments to the IRS during the year:

Date Sent	Federal Estimated Payment	State Estimated Payment
June 15	\$1,500	\$400
September 15	\$1,900	\$500
January 15	\$2,000	\$600

Adelle's other business expenses *paid* for the year include the following:

Brochures and e-mail flyers.....	\$350
Cost of products held on consignment.....	\$12,271
Business insurance	\$623
Supplies.....	\$230
Shipping costs	\$2,280

Baxter took a distribution from his Roth IRA to help offset the cost of their new kitchen remodel (Form 1099-R shown). When you ask Baxter when he established the Roth IRA, he says he first contributed to it in 2003. His basis on December 31 last year was \$13,500, according to his account statement. He has never had a traditional IRA and has not previously taken any distributions from his Roth IRA.

Baxter and Adelle received tax-exempt interest from the municipal bonds they hold for the new water treatment facility in their town (Form 1099-INT shown).

Baxter purchased a used car and placed it in service on December 13, 2009. He drove a total of 30,291 miles during the year, which includes 16,894 miles for his job. His average daily round-trip commuting distance is eight miles, and he worked 250 days during the year. Baxter keeps accurate mileage records. He has used the standard mileage rate for the past few years and would like to use it again this year. He had another car available for personal use.

On an overnight business trip to Phoenix, Baxter had the following *unreimbursed* expenses:

Airfare.....	\$300
Hotel.....	\$140
Car rental.....	\$170
Meals.....	\$130
Entertainment.....	\$30
Parking fees.....	\$10

The Nelams paid the following other expenses during the tax year, and have receipts for all of their cash contributions:

Doctor bills.....	\$300
State income tax paid for 2012.....	\$230
Personal property taxes.....	\$323
Charitable contributions (cash).....	\$420

After you educate the Nelams about their product and service choices, you request the following consent and receive the responses shown:

- ◆ To use their tax information to discuss product options. **YES**
- ◆ To disclose their tax information to the providers of products. **YES**
- ◆ To allow Jackson Hewitt to contact them. **YES**

The Nelams do *not* authorize anyone to discuss their return with the IRS. They are not interested in attending a Jackson Hewitt® income tax course.

After explaining the Accuracy Guarantee, which is included for *free* with paid tax preparation, you explain the cost and benefits of the Gold Guarantee®. They decline the offer to purchase the Gold Guarantee.

After you explain the Nelams' product and service options, they decide they want to choose IRS Direct and have any refund proceeds disbursed as a Direct Deposit to their checking account. If they *owe* any money on their tax return, they want to file electronically and use the Flex Direct option to have the balance due withdrawn from the same account on April 15. Their bank information is Upper State Bank (RTN 012456778, account number ABC12345). The total tax on their *prior-year* federal tax return is \$1,391. They will pay their fees in cash.

The Nelams authorize Jackson Hewitt to generate and enter their PINs for their electronic signatures. They tell you their home phone number is the best one at which to reach them.

Prepare the Nelams' tax return.

22222		a. Employee's social security number 400-00-4012		OMB No. 1545-0008		
b. Employer identification number (EIN) 00-0401201				1 Wages, tips, other compensation 63417.00	2. Federal income tax withheld 6341.17	
c. Employer's name, address, and ZIP code EASTVIEW CONSULTING GROUP INC 3 COMMERCIAL DRIVE YOUR CITY YS ZIP CODE				3 Social security wages 67222.02	4 Social security tax withheld 4167.77	
				5 Medicare wages 67222.02	6 Medicare tax withheld 975.00	
				7 Social security tips	8 Allocated tips	
d. Control number				9	10 Dependent care benefits	
e. Employee's first name and initial BAXTER A		Last name NELAM		Suff.		
213 RESERVE ROAD YOUR CITY YS ZIP CODE				11 Nonqualified plans	12a See instructions for box 12 Code D 3805.02	
				13 Statutory Employee Retirement Plan Third Party Sick Pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	12b Code DD 6341.70	
				14 Other	12c Code	
					12d Code	
f. Employee's address and ZIP code						
15 State YS	Employer's state ID number	16 State wages, tips, etc. 63417.00	17 State income tax 3170.85	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2013**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.

This information is being furnished to the Internal Revenue Service.

CORRECTED

FILER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no. QUICKICHECKOUT.COM 1001 RADCLIFFE BUILDING BLOOMFIELD HILLS, MI 48301 (800) 000-2104		FILER'S federal identification no. 00-0401209	OMB No. 1545-2205 2013 Form 1099-K		Payment Card and Third Party Network Transactions
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input checked="" type="checkbox"/>		PAYEE'S taxpayer identification no. 410-00-4012	1 Gross amount of payment card/third party network transactions \$ 44691.35		
Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input checked="" type="checkbox"/>		3 Number of payment transactions	2 Merchant category code		Copy B For Payee This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
PAYEE'S name ADELLE P. NELAM (DBA MYTYME QUILTS)		5a January \$ 522.15	5b February \$ 750.37		
Street address (including apt. no.) 213 RESERVE ROAD		5c March \$ 1223.88	5d April \$ 2114.66		
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, YS ZIP CODE		5e May \$ 2277.13	5f June \$ 3599.75		
PSE'S name and telephone number QUICKICHECKOUT.COM (248) 000-9191		5g July \$ 4130.83	5h August \$ 5009.20		
Account number (see instructions) MTQ4012		5i September \$ 4883.49	5j October \$ 6222.22		
		5k November \$ 7012.66	5l December \$ 6945.01		
		6 State	7 State identification no.		
			8 State income tax withheld \$		

Form **1099-K**

(Keep for your records)

www.irs.gov/form1099k

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no. Smith Pruett Financial Advisors 201 Rooster Tail Trail Your City, YS ZIP Code (888) 000-4102		Payer's RTN (optional)	OMB No. 1545-0112 2013 Form 1099-INT		Interest Income		
PAYER'S federal identification number 00-0401202		1 Interest income \$	2 Early withdrawal penalty \$				
RECIPIENT'S identification number 400-00-4012		3 Interest on U.S. Savings Bonds and Treas. obligations \$		Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.			
RECIPIENT'S name Baxter A. and Adelle P. Nelam		4 Federal income tax withheld \$	5 Investment expenses \$				
Street address (including apt. no.) 213 Reserve Road		6 Foreign tax paid \$	7 Foreign country or U.S. possession				
City or town, province or state, country, and ZIP or foreign postal code Your City, YS ZIP Code		8 Tax-exempt interest \$ 3,719.93	9 Specified private activity bond interest \$				
Account number (see instructions)		10 Tax-exempt bond CUSIP no.	11 State			12 State identification no.	13 State tax withheld \$

Form **1099-INT**

(keep for your records)

www.irs.gov/form1099int

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code INVESTMENT WORLD 14 QUAIL RUN WOOSTEN NY 12071		1 Gross distribution \$ 15000.00 2a Taxable amount \$	OMB No. 1545-0119 2013 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.
PAYER'S federal identification number 00-4012004		RECIPIENT'S identification number 400-00-4012		2b Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>	
RECIPIENT'S name BAXTER A NELAM Street address (including apt. no.) 213 RESERVE ROAD City, State, and ZIP Code YOUR CITY YS ZIP CODE		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ 1500.00		
		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		
		7 Distribution code(s) J	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$ 1000.00 \$	13 State/Payer's state no. YS	14 State distribution \$ 15000.00 \$	
Account number (see instructions) 400004012R		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	

Form 1099-R Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

RECIPIENT'S/LENDER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number FIRST CITY BANK 1011 KATIE DRIVE YOUR CITY YS ZIP CODE (888) 000-2041		* Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.	OMB No. 1545-0901 2013 Form 1098		Mortgage Interest Statement Copy B For Payer/Borrower The information in boxes 1, 2, 3, and 4 is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points or because you did not report this refund of interest on your return.
RECIPIENT'S federal identification no. 00-0401203	PAYER'S social security number 400-00-4012	1 Mortgage interest received from payer(s)/borrower(s)* \$ 7,049.44			
PAYER'S/BORROWER'S name BAXTER A AND ADELLE P NELAM Street address (including apt. no.) 213 RESERVE ROAD City or town, province or state, country, and ZIP or foreign postal code YOUR CITY YS ZIP CODE		2 Points paid on purchase of principal residence \$			
		3 Refund of overpaid interest \$			
		4 Mortgage insurance premiums \$			
Account number (see instructions)		5 REAL ESTATE TAX PAID: \$2759.84			

Form 1098 (keep for your records) www.irs.gov/form1098 Department of the Treasury - Internal Revenue Service

CORRECTED

FILER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number STATE COLLEGE OF YOUR CITY 1 EDUCATION PARKWAY YOUR CITY YS ZIP CODE (800) 000-4012		1 Payments received for qualified tuition and related expenses \$ 3,350.00	OMB No. 1545-1574 2013 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the Internal Revenue Service.
FILER'S federal identification no. 00-0401210	STUDENT'S social security number 410-00-4012	2 Amounts billed for qualified tuition and related expenses \$	3 If this box is checked, your educational institution has changed its reporting method for 2013 <input type="checkbox"/>	
STUDENT'S name ADELLE P NELAM		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 3,350.00	
Street address (including apt. no.) 213 RESERVE ROAD		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2014 <input type="checkbox"/>	
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY YS ZIP CODE		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$		

Form **1098-T** (keep for your records) www.irs.gov/form1098t Department of the Treasury - Internal Revenue Service

Form **8332**
(Rev. January 2010)
Department of the Treasury
Internal Revenue Service

Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent

OMB No. 1545-0074
Attachment Sequence No. **115**

▶ Attach a separate form for each child.

Name of noncustodial parent
BAXTER A NELAM Noncustodial parent's social security number (SSN) ▶ **400 : 00 : 4012**

Part I Release of Claim to Exemption for Current Year

I agree not to claim an exemption for BRENDA A NELAM Name of child

for the tax year 2013.

Katherine Friedman Signature of custodial parent releasing claim to exemption
420 : 00 : 4012 Custodial parent's SSN
01/15/2014 Date

Note. If you choose not to claim an exemption for this child for future tax years, also complete Part II.

Part II Release of Claim to Exemption for Future Years (If completed, see Noncustodial Parent on page 2.)

I agree not to claim an exemption for _____ Name of child

for the tax year(s) _____ (Specify. See instructions.)

Signature of custodial parent releasing claim to exemption

Custodial parent's SSN

Date

Part III Revocation of Release of Claim to Exemption for Future Year(s)

I revoke the release of claim to an exemption for _____ Name of child

for the tax year(s) _____ (Specify. See instructions.)

Signature of custodial parent revoking the release of claim to exemption

Custodial parent's SSN

Date

Lessons Learned

This section describes the lessons you should have learned from this exercise.

Dependents, Child Tax Credit, and Earned Income Tax Credit

Rick should be entered as a child who lived with Baxter and Adelle for more than six months.

Brenda should be entered as a child who did *not* live with the taxpayer, due to divorce or separation.

Balance Due Payments for Prior-Year State Tax

To enter payments made during the current year for state balance-due payments, enter **YES** when the ProFiler question, “Did you have any of the following?” appears:

- ◆ Refund from last year’s state income tax returns
- ◆ State estimated tax payments for 2012
- ◆ Prior year’s state income tax refund credited to 2012
- ◆ 2012 state estimated or extension payment after December 31, 2012
- ◆ Other tax payments made in 2012 for prior year’s tax

Education Benefits

Adelle cannot claim the American Opportunity or Lifetime Learning Credit because her education expenses were completely paid for by a tax-free scholarship. Therefore, she does *not* have any out-of-pocket education expenses to use in calculating a credit or deduction.

Form 1099-R With No Amount in Box 2a

Baxter’s Form 1099-R does not have a value in Box 2a. However, you should let ProFiler automatically populate Box 2a with the amount shown in Box 1. By doing this, you enable the accurate determination of the taxable amount of the distribution. If you leave Box 2a blank, and the distribution code in Box 7 indicates the distribution is most likely taxable, you receive a warning message in ProFiler. If you insist on leaving Box 2a blank, ProFiler requires you to answer questions *specifically* related to why the distribution is not taxable, in your opinion.