**INDIVIDUAL TAX RETURN PROBLEM**

**Required:**

• Use the following information to complete Paul and Judy Vance’s 2017 federal income tax return. You are not allowed to use tax preparation software, online resources other than the fillable forms from irs.gov, or tax calculators/programs of any kind to complete this return. You should complete the return using (1) fillable PDF documents that can be obtained on-line from the IRS website or (2) print the forms and write in the numbers (very neatly). This assignment is Group red information sharing, group red submission. If your group does not agree on the correct answers, and talking about it doesn’t resolve the issue, you may turn in more than one return per group. However, the name of each individual in the group may only be on one return (no straddling the fence, each individual has to commit to an answer and turn it in). In calculating the amount of tax (line 44 of the 1040), use only the 2017 federal tax rate schedules from your book.

**Due date and time: The** **tax return must be handed in by Tuesday, April 10, 2018 before 8:00 a.m, for morning sections and before 12:30 p.m. for afternoon sections.**

• You may need the following forms and schedules to complete the project:

Form 1040, Schedule A, Schedule B, Schedule C, Schedule D, Schedule E, Schedule SE, Form 2106-EZ, Form 4562 (for the dental practice), Form 4562 (for the rental property), Form 4797, Form 8863, and/or, Form 8949.

• Ignore all passive activity loss forms and passive activity loss tax limitations.

• If you believe you need any additional information to complete the tax return you can ask your tax professor for this information. Your tax professor will play the role of the client and, as a result, will be limited to answering only facts about this case. Your tax professor is the only person outside of your 2018 winter semester group members with whom you are allowed to discuss the tax return.

• Please be aware that this assignment will be graded not only upon the accuracy of your solution but also on the professionalism of your final product. The following items, among others, will be considered when grading the tax return:

1. Are your name, section number, and group number on the top of the first page of the Form 1040?
2. Did you sign the return as the paid preparer? Doing so is your representation that you have complied with the instructions of the assignment and the Junior Core policies in completing the tax return.
3. Are your forms and schedules in proper order (the forms and schedules have an order known as a “sequence number” you can find in the upper right hand of each form or schedule)?
4. Did you complete and attach to the tax return all required attachments and schedules?
5. Did you exclude schedules and other information not required to be filed with the tax return? For example, did you leave out the instructions to forms?
6. Did you round all numbers on each line of the tax return to the nearest whole dollar (do not put “0” on lines for which no entry is required and do not put “.00” on any line)?
7. Does your final product look professional? Are numbers crossed out, have numbers been truncated, have you answered all questions you need to answer (checked all necessary boxes), do you have misspelled words, do you have misprinted lines (etc.)?
8. Did you STAPLE all pages together?
9. Did you use commas to separate numbers (i.e., 1,000,000)?
10. Did you turn in the tax return before the deadline? **Note that late tax returns will be accepted but they will receive a late filing penalty. We recommend that you print your tax return well in advance of the due date and time. If printers in the TNRB (or wherever you try to print) aren’t working properly and you are unable to print your return timely, your assignment will be late.**

**Facts:**

1. Paul J. and Judy L. Vance are married and file a joint return. Paul is self-employed as a dentist, and Judy teaches at a university. Paul and Judy have three children. The oldest is Vince who lives at home. Vince received his BS degree from the University of Ohio in 2014 and claimed the appropriate education credits for his 4 years there. Vince is now a law student at the University of Cincinnati and worked part-time during the year, earning $1,500, which he spent for his own support. Paul and Judy provided $6,000 toward Vince’s support (including $4,000 for Vince’s fall tuition). They also provided over half the support of their daughter, Joan, who is a full-time student at Edgecliff College in Cincinnati. Joan worked part-time as an independent contractor during the year, earning $3,200. Joan lived at home until she was married in December 2017. She filed a joint return with her husband, Patrick, who earned $20,000 as an employee during the year. Jennifer is the youngest and lived in the Vances’ home for the entire year.

The address for the University of Cincinnati is 543 Maple Street, Cincinnati, OH 45211. Vince received a 1098-T for 2017. Vince’s 1098-T included the following:

**Box 1:** $4,000

**Box 8:** Checked

**Box 9:** Checked

The Federal Identification Number of the University is 34-5767386

The Vances provide you with the following additional information:

• Paul and Judy would like to take advantage on their return of any educational expenses paid for their children.

• The Vances do not want to contribute to the presidential election campaign.

• The Vances live at 621 Franklin Avenue, Cincinnati, OH 45211.

• Paul’s birthday is 3/5/1961 and his Social Security number is 333-45-6666.

• Judy’s birthday is 4/24/1964 and her Social Security number is 566-77-8888.

• Vince’s birthday is 11/6/1994 and his Social Security number is 576-18-7928.

• Joan’s birthday is 2/1/1998 and her Social Security number is 575-92-4321.

• Jennifer’s birthday is 12/12/2005 and her Social Security number is 613-97-8465.

• The Vances do not have any foreign bank accounts or trusts.

2. Judy is a lecturer at Xavier University in Cincinnati, where she earned $30,000 during 2017. In addition to her salary, Judy also receives full health insurance coverage for herself and her entire family. In addition, no one in the Vance household purchased health insurance through healthcare.gov or a state exchange. The university withheld federal income tax of $3,375, state income tax of $900, Cincinnati city income tax of $375, Social Security tax of $1,860 and $435 of Medicare tax. She also worked part-time during the year for Delta Airlines. Delta paid her $10,000 in salary, and withheld federal income tax of $1,125, state income tax of $300, Cincinnati city income tax of $125, Social Security tax of $620, and Medicare tax of $145.

3. The Vances received $800 of interest from State Savings Bank on a joint account. They received interest of $1,000 on City of Cincinnati bonds they bought in January with the proceeds of a loan from Third National Bank of Cincinnati. They paid interest of $1,100 on the loan. Paul received a dividend of $540 on General Bicycle Corporation stock he owns. Judy received a dividend of $390 on Acme Clothing Corporation stock she owns. Paul and Judy received a dividend of $865 on jointly owned stock in Maple Company. All of the dividends received in 2017 are qualified dividends.

4. Paul practices under the name “Paul J. Vance, DDS.” His business is located at 645 West Avenue, Cincinnati, OH 45211, and his employer identification number is 01-2222222. Paul’s gross receipts during the year were $111,000. Paul uses the cash method of accounting for his business. Paul’s business expenses are as follows:



In June, Paul decided to refurbish his office. This project was completed and the assets placed in service on July 1. Paul’s expenditures included $8,000 for new office furniture, $6,000 for new dental equipment (seven-year recovery period), and $2,000 for a new computer. Paul elected to compute his cost recovery allowance using MACRS. He did not elect to use §179 immediate expensing and he chose to not claim any bonus depreciation.

Paul was required to file 1099s on some of the payments that he made in his business. All of the required 1099s were filed timely.

Paul was not required to provide health insurance to any of his employees because all employees worked part-time.

5. Judy’s mother, Sarah, died on July 2, 2012, leaving Judy her entire estate. Included in the estate was Sarah’s residence (325 Oak Street, Cincinnati, OH 45211). Sarah’s basis in the residence was $30,000. The fair market value of the residence on July 2, 2012, was $155,000. The property was distributed to Judy on January 1, 2013. The Vances have held the property as rental property and have managed it themselves. From 2013 until June 30, 2017, they rented the house to the same tenant. The tenant was transferred to a branch office in California and moved out at the end of June. Since they did not want to bother finding a new tenant, Paul and Judy sold the house on June 30, 2017. They received $140,000 for the house and land ($15,000 for the land and $125,000 for the house), less a 6 percent commission charged by the broker. They had depreciated the house using the MACRS rules and conventions applicable to residential real estate. To compute depreciation on the house, the Vances had allocated $15,000 of the property’s basis to the land on which the house is located. The Vances collected rent of $1,000 a month during the six months the house was occupied during the year. The Vances were not required to file any Forms 1099 for this rental activity. They incurred the following related expenses during the year:



6. The Vances sold 200 shares of Capp Corporation stock on September 3, 2017, for $42 a share (minus a $50 commission). The Vances received the stock from Paul’s father on June 25, 1984, as a wedding present. Paul’s father originally purchased the stock for $10 per share in 1972. The stock was valued at $14.50 per share on the date of the gift. No gift tax was paid on the gift. The Vances did not receive a 1099-B reporting either the tax basis or the proceeds.

7. Judy is required by Xavier University to visit several high schools in the Cincinnati area to evaluate Xavier University students who are doing their practice teaching. However, she is not reimbursed for the expenses she incurs in doing this. During the spring semester (January through April 2017), she drove her personal automobile 6,800 miles in fulfilling this obligation. Judy drove an additional 6,700 personal miles during 2017. She has been using the car since June 30, 2016. Judy uses the standard mileage method to calculate her car expenses. Her vehicle was available for personal use during off-duty hours, she also owned another vehicle that was available for personal use and she does have written evidence to support her business mileage.

8. Paul and Judy have given you a file containing the following receipts for expenditures during the year:

Prescription medicine and drugs (net of insurance reimbursement) $ 376

Doctor and hospital bills (net of insurance reimbursement) $ 2,468

Penalty for underpayment of last year’s state income tax $15

Real estate taxes on personal residence $ 4,762

Interest on home mortgage (paid to Home State Savings & Loan) $ 8,250 (reported to the Vances on a Form-1098)

Interest on credit cards (consumer purchases) $595

Cash contribution to St. Matthew’s church $ 3,080 (donation receipt was received)

Payroll deductions for Judy’s contributions to the United Way $150 (donation receipt was received)

Professional dues (Judy) $325

Professional subscriptions (Judy) $245

Fee for preparation of 2016 tax return paid April 14, 2017: $500.

9. The Vances filed their 2016 federal, state, and local returns on April 12, 2017. They paid the following additional 2016 taxes with their 2016 tax returns: federal income taxes of $630, state income taxes of $250, and city income taxes of $75.

10. The Vances made timely estimated federal income tax payments of $1,500 each quarter during 2017. They also made estimated state income tax payments of $300 each quarter and estimated city income tax payments of $160 each quarter. The Vances made all fourth-quarter payments on December 31, 2017. They would like to receive a refund in the form of a check for any overpayments.