

1. Comprehensive Problem 1 - Part 1

Noah and Joan Arc's Tax Return

Note: This problem is divided into three parts. You will need to complete some of the forms in the other parts in order to determine the amounts that are used on Form 1040.

Noah and Joan Arc live with their family at 4342 Josie Jo, Santee, CA 92071. Noah's Social Security number is 434-11-3311; Joan's is 456-87-5432. Both are in their mid-30s and enjoy good health and eyesight. Noah owns and operates a pet store and Joan is a firefighter for the city.

1. The Arcs have two children, a son named Billie Bob (Social Security number 598-01-2345), who is 7 years old, and a daughter named Mary Sue (Social Security number 554-33-2411), who is 4 years old. The Arcs paid \$3,200 to the Roundup Day Care Center to take care of Mary Sue while they worked. Because Joan is a firefighter, she was home in the afternoon to care for Billie Bob after school.

2. For the current year, Joan's W-2 from the city fire department is located below. Noah made estimated federal income tax payments of \$12,000 and estimated state income tax payments of \$1,020 during the current year.

a Employee's social security number 456-87-5432		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 33-4382966		1 Wages, tips, other compensation 27,600.00		2 Federal income tax withheld 5,050.00	
c Employer's name, address, and ZIP code Santee Fire Department Santee, CA 92071		3 Social security wages 27,600.00		4 Social security tax withheld 1,711.20	
		5 Medicare wages and tips 27,600.00		6 Medicare tax withheld 400.20	
		7 Social security tips		8 Allocated tips	
d Control number 9		9		10 Dependent care benefits	
e Employee's first name and initial Joan Arc 4342 Josie Jo Santee, CA 92071		11 Nonqualified plans		12a See instructions for box 12 C o d e	
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b C o d e	
		14 Other		12c C o d e	
				12d C o d e	
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

CA	1126-87021	27,600.00	1,240.00			

Form **W-2** Wage and Tax Statement **2015** 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.

3. Noah's pet store is located at 18542 Mission Road, Santee, CA 92071. The name of the store is "The Arc," and its taxpayer ID number is 95-9876556. The beginning inventories and ending inventories are both \$10,000. The revenue and expenses for the year are as follows:

Sales revenue (merchant card sales)	\$ 144,300
Expenses:	
Cost of sales	\$61,900
Insurance	780
Accounting fees	1,800
Wages	25,100
Payroll taxes	2,250
Business meals (total)	\$400
Utilities	2,650
Rental expense	7,600

4. Noah and Joan paid the following amounts during the year (all by check):

Political contributions	\$250
Church donations (for which a written acknowledgment was received)	2,700
Real estate taxes on their home	1,350
Mortgage interest for purchase of home See Form 1098	
Tax return preparation fees	350
Credit card interest	220
Automobile insurance premiums	600
Uniforms for Joan	125

5. Noah likes to invest in the stock market. His Form 1099-B showed the following information for Noah's stock sales:

Stock	Date Acquired	Date Sold	Sales Price	Cost Basis
Blue Co.	02/11/05	08/15/15	\$4,500	\$2,400
Yellow Co.	01/31/15	06/05/15	6,000	5,300
Red Co.	10/02/06	10/07/15	12,200	1,600

The expenses of sale are included in the cost basis. Noah has a long-term capital loss carryover from last year of \$2,350.

6. During the year, Noah and Joan received the following qualifying dividends:

Exxon	\$302
Texas Utilities	220
Coca-Cola	See 1099-DIV

All stocks, bonds, and savings accounts were purchased or established with community property.

7. Noah and Joan own rental property (a single family residence) located at 6431 Gary Ct., San Diego, CA 92115. The revenue and expenses for the year are as follows:

Rent income	See 1099-MISC
Insurance	\$575
Interest expense	6,870
Property taxes	1,000
Miscellaneous expenses	600
Depreciation (the house was acquired in 1991)	3,000

8. All members of the Arc household were covered for the entire year under health care insurance through Joan's employer.

Required: Although Noah and Joan do not believe their tax return will be unduly complicated, they do realize their limitations and come to you for assistance. You are to prepare their federal income tax return in good form, signing the return as the preparer. You are not required to complete a California state income tax return. Noah and Joan have completed a tax organizer and have also given you several IRS forms (see [1099-DIV](#), [1099-](#)

MISC and 1098) that they were not sure what to do with. Make realistic assumptions about any missing data (addresses, etc.) that you may need. The following forms and schedules are required:

Form 1040 Schedule E
Schedule A Schedule SE
Schedule B Form 2441
Schedule C Form 8949
Schedule D Qualified Dividends and Capital Gain Tax Worksheet

Note: Only page 1 of Schedule E is required.

Click here to access the [tax table](#) to use for this problem.

If required, enter a "loss" as a negative number on the tax form. Do not enter deductions as negative numbers. If an amount box does not require an entry or the answer is zero, enter "0". If required, round your answers to the nearest dollar. However, on **Schedule SE**, use the rounded amounts in subsequent computations.

Form 1040 U.S. Individual Income Tax Return 2015		Department of the Treasury—Internal Revenue Service (99)	OMB No. 1545-0074	IRS use only
For the year Jan. 1–Dec. 31, 2015, or other tax year ,2015, ending beginning ,20		See separate instructions.		
Your first name and initial Noah	Last name Arc	Your social security number 434-11-3311		
If a joint return, spouse's first name and initial Joan	Last name Arc	Spouse's social security number 456-87-5432		
Home address (number and street). If you have a P.O. box, see instructions. 4342 Josie Jo		Apt. no.	▲ 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). Santee, CA 92071		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 checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse		
Foreign country name	Foreign province/state/country	Foreign postal code		

Filing status

Exemptions

6a **Yourself.** If someone can claim you as a dependent, do not check box 6a

b **Spouse**

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ If child under age 17 qualifying for child tax credit (see instructions)
(1) First name	Last name			
Billie Bob	Arc	598-01-2345	Son	<input checked="" type="checkbox"/>
Mary Sue	Arc	554-33-2411	Daughter	<input checked="" type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see instructions and check here

▼ ☐

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 ▼ ☐

7 Wages, salaries, tips, etc. Attach Form(s) W-2	7 <input type="checkbox"/>
Taxable interest. Attach Schedule B if required	<input type="checkbox"/>

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.

8a		8a	
b Tax-exempt interest. Do not include on line 8a	8b		
Ordinary dividends. Attach Schedule B if required		9a	<input type="text"/>
9a			
b Qualified dividends	9b	<input type="text"/>	
10 Taxable refunds, credits, or offsets of state and local income taxes		10	
Alimony received		11	
11			
12 Business income or (loss). Attach Schedule C or C-EZ		12	<input type="text"/>
Capital gain or (loss). Attach Schedule D if required. If not required, check here ▼ □		13	<input type="text"/>
13 Other gains or (losses). Attach Form 4797		14	
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 <input type="text"/>
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
Combine the amounts in the far right column for lines 7 through 21. This is your			
22 total income ▼			22 <input type="text"/>
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	<input type="text"/>	
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 <input type="text"/>
37 Subtract line 36 from line 22. This is your adjusted gross income ▼			37 <input type="text"/>

Adjusted Gross Income

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2015)

Tax and Credits**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, \$6,300

Married filing jointly or Qualifying widow(er), \$12,600

Head of household, \$9,250

Other Taxes

38	Amount from line 37 (adjusted gross income)	38	<input type="text"/>
39a	Check if: <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind.	Total boxes checked ▼ 39a	<input type="text"/>
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▼ 39b <input type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	<input type="text"/>
41	Subtract line 40 from line 38	41	<input type="text"/>
42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42	<input type="text"/>
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	<input type="text"/>
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	<input type="text"/>
45	Alternative minimum tax (see instructions). Attach Form 6251	45	<input type="text"/>
46	Excess advance premium tax credit repayment. Attach Form 8962	46	<input type="text"/>
47	Add lines 44, 45, and 46 ▼	47	<input type="text"/>
48	Foreign tax credit. Attach Form 1116 if required	48	<input type="text"/>
49	Credit for child and dependent care expenses. Attach Form 2441	49	<input type="text"/>
50	Education credits from Form 8863, line 19	50	<input type="text"/>
51	Retirement savings contributions credit. Attach Form 8880	51	<input type="text"/>
52	Child tax credit. Attach Schedule 8812, if required	52	<input type="text"/>
53	Residential energy credit. Attach Form 5695	53	<input type="text"/>
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> _____	54	<input type="text"/>
55	Add lines 48 through 54. These are your total credits	55	<input type="text"/>
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▼	56	<input type="text"/>
57	Self-employment tax. Attach Schedule SE	57	<input type="text"/>
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	<input type="text"/>
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	<input type="text"/>
60a	Household employment taxes from Schedule H	60a	<input type="text"/>
b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	<input type="text"/>
61	Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	<input type="text"/>
	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) _ _ _		<input type="text"/>

62 -----	62	
63 Add lines 56 through 62. This is your total tax	63	

Payments

If you have a qualifying child, attach Schedule EIC.	64 Federal income tax withheld from Forms W-2 and 1099	64	
	65 2015 estimated tax payments and amount applied from 2014 return	65	
	66a Earned income credit (EIC)	66a	
	b Nontaxable combat pay election	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 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		

Refund

75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75	
76a Amount of line 75 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	76a	
Direct deposit? See instructions. b Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="text"/>		
77 Amount of line 75 you want applied to your 2016 estimated tax ▼	77	
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)? ☐ **Yes**. Complete below.

☐ **No**

Designee's name	Phone no.	Personal identification number (PIN)
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Sign Here

Joint return? See instructions. Keep a copy for your records.

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.

Your signature Noah Arc	Date 	Your occupation Pet Store Owner	Daytime phone number
Spouse's signature. If a joint return, both must sign. Joan Arc	Date 	Spouse's occupation Firefighter	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Paid Preparer Use Only				
Firm's name ▼			Firm's EIN ▼	
Firm's address ▼			Phone no.	

www.irs.gov/form1040Form **1040** (2015)**SCHEDULE A (Form 1040)**

Department of the Treasury Internal Revenue Service (99)

Itemized Deductions

▼ **Information about Schedule A and its separate instructions is at**
www.irs.gov/schedulea.
 ▼ **Attach to Form 1040.**

OMB No. 1545-0074

2015

Attachment
Sequence No.

07

Name(s) shown on Form 1040

Noah and Joan Arc

Your
social
security
number
434-11-
3311

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see instructions)		1	
	2 Enter amount from Form 1040, line 38	2		
	3 Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead		3	
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4	
Taxes You Paid	5 State and local		5	
	a <input checked="" type="checkbox"/> Income taxes	}		
	b <input type="checkbox"/> General Sales Taxes			
	6 Real estate taxes (see instructions)		6	
	7 Personal property taxes		7	
	8 Other taxes. List type and amount ▼		8	
	9 Add lines 5 through 8		9	
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098		10	
	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	
	Note. Your mortgage interest deduction may be limited (see instructions).			
	12 Points not reported to you on Form 1098. See instructions for special rules		12	
	13 Mortgage insurance premiums (see instructions)		13	
	14 Investment interest. Attach Form 4952 if required. (See instructions.)		14	
	15 Add lines 10 through 14		15	
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions		16	
	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	
	18 Carryover from prior year		18	
	19 Add lines 16 through 18		19	
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)		20	
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.) ▼ Employee Business Expenses		21	
	22 Tax preparation fees		22	
	23 Other expenses—investment, safe deposit box, etc. List type and amount ▼		23	
	24 Add lines 21 through 23		24	
	25 Enter amount from Form 1040, line 38	25		
	26 Multiply line 25 by 2% (.02)		26	
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		27	

Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ▼ _____ _____	28	
Total Itemized Deductions	29 Is Form 1040, line 38, over \$154,950? <input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.	29	<input type="text"/>
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here ▼ <input type="checkbox"/>		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17145C Schedule A (Form 1040) 2015

SCHEDULE B**(Form 1040A or 1040)**

Department of the Treasury Internal Revenue Service (99)

Interest and Ordinary Dividends▼ **Attach to Form 1040A or 1040.**▼ **Information about Schedule B and its instructions is at**www.irs.gov/scheduleb.

OMB No. 1545-0074

2015Attachment Sequence No. **08**

Name(s) shown on return

Noah and Joan Arc
Your social security number
 434-11-3311
Part I**Interest**

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▼

1
2 Add the amounts on line 1

3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815

4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▼

Note: If line 4 is over \$1,500, you must complete Part III.**Part II****Ordinary Dividends**

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

List name of payer ▼ _____

5

6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▼

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 transferor to, a foreign trust.

Part III**Foreign**

7a At any time during 2015, 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☒

Accounts		
and	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that		
Trusts	financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions		
(See	to those requirements		
instructions	b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located		
on back.)	▼		
	8 During 2015, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you		<input type="checkbox"/>
	may have to file Form 3520. See instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N Schedule B (Form 1040A or 1040) 2015

2.
3.
2 more Check My Work uses remaining.