

## Carol's Tax Return-2016 Tax Year

### Part 1. Complete Columns F,G,H. Part 2. Compute amount of tax due or refund

Complete Form 1040, page 1 & 2, and Form 1040-Schedules A & B. Use Form 1040 for 2015. WWW.IRS.gov

	A	C	D	E	F	G	H
	Code	Text	<b>Part 1. Income &amp; expenses</b>	Amount	Gross Income	Deduct. For AGI	Deduct. from AGI
1	61	4-5	Gross Salary	\$60,000			
2			FICA Withheld (7.65%)	(\$4,590)			
3		7-16	Federal Income Tax Withheld	(\$7,000)			
4	164	6-16	N.C. Income Tax Withheld	(\$2,000)			
5			Take-Home Pay	\$38,175			
6			Carol's interest income from:				
7	61(a)(4)	5-2	Wachovia account	\$4,000			
8	103	5-21	City of Concord bonds	\$3,000			
9	102	5-26	Gift from parents	\$2,000			
10			Carol Made these Payments				
11	215,62(a)(10)	5-15	Alimony paid	\$9,000			
12	170	6-18	Gift-United Way	\$2,000			
13	213(a)	6-13	Hospital Insurance premium	\$4,000			
14	213(a)		Gross Income				
15	62		Deductions for AGI				
16			Deductions from AGI (Gross deductions, before limits)				

			<b>Part 2. Compute income tax</b>			
17			INCOME (Form 1040, page 1)			
18		4-21	Carol-Single-No dependent			Single
19	61		Gross income			
20	62	5-15	Deductions for Adjusted Gross Income			
21	62		Adjusted Gross Income			
22			DEDUCTIONS -Schedule A and Form 1040-pg 2			
23	213(a)	6-13	Medical			
24	213(a)	6-15	Less 10% of Adjusted Gross Income			
25	213(a)		Net Medical Deduction			
26	164, 275	6-16	State Income Tax			
27	170	6-18	Charitable contribution			
28			Total Itemized Deductions			
29	63	6-34	Standard Deduction			
30	63		Greater of itemized deductions or Stand. Deduct.			
31	151	4-11	Exemption			
32			TAXABLE INCOME & TAX DUE OR REFUND			
33	63		Taxable Income			
34	1		Income tax before credits ( Compute below)			
35	31		Less Income Tax Withholding			
36			Tax due (refund)			

37		1(c)	Computations: Single, 2016	Base	Rate	Tax
38	1		Top layer for taxpayer			
39	1		Amount above layer			
40			Total			

For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20
Your first name and initial Last name
If a joint return, spouse's first name and initial Last name
Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Foreign country name Foreign province/state/county Foreign postal code

Filing Status
1 Single
2 Married filing jointly (even if only one had income)
3 Married filing separately. Enter spouse's SSN above and full name here.
4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child

Exemptions
6a Yourself. If someone can claim you as a dependent, do not check box 6a.
b Spouse
c Dependents:
(1) First name Last name (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)
d Total number of exemptions claimed

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
9a Ordinary dividends. Attach Schedule B if required
b Qualified dividends
9b
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
14 Other gains or (losses). Attach Form 4797
15a IRA distributions
15a 15a b Taxable amount
15b
16a Pensions and annuities
16a 16a b Taxable amount
16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
18 Farm income or (loss). Attach Schedule F
19 Unemployment compensation
20a Social security benefits
20a 20a b Taxable amount
20b
21 Other income. List type and amount
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

Adjusted Gross Income
23 Educator expenses
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
25 Health savings account deduction. Attach Form 8889
26 Moving expenses. Attach Form 3903
27 Deductible part of self-employment tax. Attach Schedule SE
28 Self-employed SEP, SIMPLE, and qualified plans
29 Self-employed health insurance deduction
30 Penalty on early withdrawal of savings
31a Alimony paid b Recipient's SSN
31a
32 IRA deduction
33 Student loan interest deduction
34 Tuition and fees. Attach Form 8917
35 Domestic production activities deduction. Attach Form 8903
36 Add lines 23 through 35
37 Subtract line 36 from line 22. This is your adjusted gross income

	<b>38</b>	Amount from line 37 (adjusted gross income)		<b>38</b>	
<b>Tax and Credits</b>	<b>39a</b>	Check <input type="checkbox"/> <b>You</b> were born before January 2, 1951, <input type="checkbox"/> <b>Blind.</b> } <b>Total boxes checked</b> <b>39a</b> <input style="width:40px;" type="text"/>			
		if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1951, <input type="checkbox"/> <b>Blind.</b> }			
	<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here <b>39b</b> <input type="checkbox"/>			
<b>Standard Deduction for—</b> • 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	<b>40</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin)		<b>40</b>	
	<b>41</b>	Subtract line 40 from line 38		<b>41</b>	
	<b>42</b>	<b>Exemptions.</b> If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions		<b>42</b>	
	<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		<b>43</b>	
	<b>44</b>	<b>Tax</b> (see instructions). Check if any from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 <b>c</b> <input type="checkbox"/>		<b>44</b>	
	<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251		<b>45</b>	
	<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962		<b>46</b>	
	<b>47</b>	Add lines 44, 45, and 46		<b>47</b>	
	<b>48</b>	Foreign tax credit. Attach Form 1116 if required	<b>48</b>		
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>49</b>		
	<b>50</b>	Education credits from Form 8863, line 19	<b>50</b>		
	<b>51</b>	Retirement savings contributions credit. Attach Form 8880	<b>51</b>		
<b>52</b>	Child tax credit. Attach Schedule 8812, if required	<b>52</b>			
<b>53</b>	Residential energy credits. Attach Form 5695	<b>53</b>			
<b>54</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/>	<b>54</b>			
<b>55</b>	Add lines 48 through 54. These are your <b>total credits</b>		<b>55</b>		
<b>56</b>	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-		<b>56</b>		
<b>Other Taxes</b>	<b>57</b>	Self-employment tax. Attach Schedule SE		<b>57</b>	
	<b>58</b>	Unreported social security and Medicare tax from Form: <b>a</b> <input type="checkbox"/> 4137 <b>b</b> <input type="checkbox"/> 8919		<b>58</b>	
	<b>59</b>	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required		<b>59</b>	
	<b>60a</b>	Household employment taxes from Schedule H		<b>60a</b>	
	<b>b</b>	First-time homebuyer credit repayment. Attach Form 5405 if required		<b>60b</b>	
	<b>61</b>	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>		<b>61</b>	
	<b>62</b>	Taxes from: <b>a</b> <input type="checkbox"/> Form 8959 <b>b</b> <input type="checkbox"/> Form 8960 <b>c</b> <input type="checkbox"/> Instructions; enter code(s) <input style="width:40px;" type="text"/>		<b>62</b>	
<b>63</b>	Add lines 56 through 62. This is your <b>total tax</b>		<b>63</b>		
<b>Payments</b>	<b>64</b>	Federal income tax withheld from Forms W-2 and 1099	<b>64</b>		
	<b>65</b>	2015 estimated tax payments and amount applied from 2014 return	<b>65</b>		
	<b>66a</b>	<b>Earned income credit (EIC)</b>	<b>66a</b>		
	<b>b</b>	Nontaxable combat pay election <b>66b</b> <input style="width:40px;" type="text"/>			
	<b>67</b>	Additional child tax credit. Attach Schedule 8812	<b>67</b>		
	<b>68</b>	American opportunity credit from Form 8863, line 8	<b>68</b>		
	<b>69</b>	Net premium tax credit. Attach Form 8962	<b>69</b>		
	<b>70</b>	Amount paid with request for extension to file	<b>70</b>		
	<b>71</b>	Excess social security and tier 1 RRTA tax withheld	<b>71</b>		
	<b>72</b>	Credit for federal tax on fuels. Attach Form 4136	<b>72</b>		
<b>73</b>	Credits from Form: <b>a</b> <input type="checkbox"/> 2439 <b>b</b> <input type="checkbox"/> Reserved <b>c</b> <input type="checkbox"/> 8885 <b>d</b> <input type="checkbox"/>	<b>73</b>			
<b>74</b>	Add lines 64, 65, 66a, and 67 through 73. These are your <b>total payments</b>		<b>74</b>		
<b>Refund</b>	<b>75</b>	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you <b>overpaid</b>		<b>75</b>	
	<b>76a</b>	Amount of line 75 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>		<b>76a</b>	
	<b>b</b>	Routing number <input style="width:100px;" type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
	<b>d</b>	Account number <input style="width:100px;" type="text"/>			
	<b>77</b>	Amount of line 75 you want <b>applied to your 2016 estimated tax</b>	<b>77</b>		
<b>Amount You Owe</b>	<b>78</b>	<b>Amount you owe.</b> Subtract line 74 from line 63. For details on how to pay, see instructions		<b>78</b>	
	<b>79</b>	Estimated tax penalty (see instructions)	<b>79</b>		

**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 <input style="width:90%;" type="text"/>	Phone no. <input style="width:75%;" type="text"/>	Personal identification number (PIN) <input style="width:90%;" type="text"/>
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**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.

Your signature <input style="width:95%;" type="text"/>	Date <input style="width:70%;" type="text"/>	Your occupation <input style="width:95%;" type="text"/>	Daytime phone number <input style="width:95%;" type="text"/>
Spouse's signature. If a joint return, <b>both</b> must sign. <input style="width:95%;" type="text"/>	Date <input style="width:70%;" type="text"/>	Spouse's occupation <input style="width:95%;" type="text"/>	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input style="width:95%;" type="text"/>

**Paid Preparer Use Only**

Print/Type preparer's name <input style="width:95%;" type="text"/>	Preparer's signature <input style="width:95%;" type="text"/>	Date <input style="width:70%;" type="text"/>	Check <input type="checkbox"/> if self-employed <input style="width:95%;" type="text"/>
Firm's name <input style="width:95%;" type="text"/>	Firm's EIN <input style="width:95%;" type="text"/>		PTIN <input style="width:95%;" type="text"/>
Firm's address <input style="width:95%;" type="text"/>	Phone no. <input style="width:95%;" type="text"/>		

**SCHEDULE A  
(Form 1040)**

**Itemized Deductions**

OMB No. 1545-0074

**2015**

Attachment  
Sequence No. **07**

Department of the Treasury  
Internal Revenue Service (99)

► **Information about Schedule A and its separate instructions is at [www.irs.gov/schedulea](http://www.irs.gov/schedulea).**  
► **Attach to Form 1040.**

Name(s) shown on Form 1040

Your social security number

<b>Medical and Dental Expenses</b>	<b>Caution:</b> Do not include expenses reimbursed or paid by others.			
	<b>1</b> Medical and dental expenses (see instructions) . . . . .	<b>1</b>		
	<b>2</b> Enter amount from Form 1040, line 38 <b>2</b>			
	<b>3</b> 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	<b>3</b>		
	<b>4</b> Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			<b>4</b>
<b>Taxes You Paid</b>	<b>5</b> State and local ( <b>check only one box</b> ):	<b>5</b>		
	<b>a</b> <input type="checkbox"/> Income taxes, or			
	<b>b</b> <input type="checkbox"/> General sales taxes			
	<b>6</b> Real estate taxes (see instructions) . . . . .	<b>6</b>		
	<b>7</b> Personal property taxes . . . . .	<b>7</b>		
	<b>8</b> Other taxes. List type and amount ►	<b>8</b>		
	<b>9</b> Add lines 5 through 8 . . . . .			<b>9</b>
<b>Interest You Paid</b>	<b>10</b> Home mortgage interest and points reported to you on Form 1098	<b>10</b>		
	<b>11</b> 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 ►	<b>11</b>		
	<b>Note:</b> Your mortgage interest deduction may be limited (see instructions).			
	<b>12</b> Points not reported to you on Form 1098. See instructions for special rules . . . . .	<b>12</b>		
	<b>13</b> Mortgage insurance premiums (see instructions) . . . . .	<b>13</b>		
	<b>14</b> Investment interest. Attach Form 4952 if required. (See instructions.)	<b>14</b>		
	<b>15</b> Add lines 10 through 14 . . . . .			<b>15</b>
<b>Gifts to Charity</b>	<b>16</b> Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . .	<b>16</b>		
	<b>17</b> Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500 . . . . .	<b>17</b>		
	<b>18</b> Carryover from prior year . . . . .	<b>18</b>		
	<b>19</b> Add lines 16 through 18 . . . . .			<b>19</b>
<b>Casualty and Theft Losses</b>	<b>20</b> Casualty or theft loss(es). Attach Form 4684. (See instructions.) . . . . .			<b>20</b>
<b>Job Expenses and Certain Miscellaneous Deductions</b>	<b>21</b> Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	<b>21</b>		
	<b>22</b> Tax preparation fees . . . . .	<b>22</b>		
	<b>23</b> Other expenses—investment, safe deposit box, etc. List type and amount ►	<b>23</b>		
	<b>24</b> Add lines 21 through 23 . . . . .	<b>24</b>		
	<b>25</b> Enter amount from Form 1040, line 38 <b>25</b>			
	<b>26</b> Multiply line 25 by 2% (.02) . . . . .	<b>26</b>		
	<b>27</b> Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			<b>27</b>
<b>Other Miscellaneous Deductions</b>	<b>28</b> Other—from list in instructions. List type and amount ►			<b>28</b>
<b>Total Itemized Deductions</b>	<b>29</b> Is Form 1040, line 38, over \$154,950?			<b>29</b>
	<input type="checkbox"/> <b>No.</b> 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.			
	<input type="checkbox"/> <b>Yes.</b> Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.			
	<b>30</b> If you elect to itemize deductions even though they are less than your standard deduction, check here . . . . .			<input type="checkbox"/>

<b>Social Security and Medicare Tax on Wages-2016</b>			
<b>Case 1. Employee has salary in 2016 of</b>			
	<b>\$50,000</b>		
<b>Maximum earnings - FICA and Medicare Tax</b>	<b>\$118,500</b>		
<b>Salary, etc. subject to FICA withholding</b>	<b>\$50,000</b>		
<b>Salary below FICA limit</b>	<b>Social Security-OASDI</b>	<b>6.20%</b>	
	<b>Medicare</b>	<b>1.45%</b>	
		<b>7.65%</b>	
<b>Case 2. Employee has salary in 2016 of</b>			
	<b>\$150,000</b>		
<b>Salary, etc. subject to FICA withholding</b>	<b>\$150,000</b>		
<b>Maximum earnings - FICA and Medicare Tax</b>	<b>\$118,500</b>		
	<b>Social Security-OASDI</b>	<b>7.65%</b>	
	<b>Medicare</b>	<b>1.45%</b>	
<b>Self-employment Tax</b>			
<b>Case 3. Employee has salary in 2016 of</b>			
	<b>\$150,000</b>		
<b>Employee has net income from a business</b>			
	<b>\$40,000</b>		
<b>Maximum earnings for FICA and Medicare Tax</b>	<b>\$118,500</b>		
<b>Salary, etc. subject to FICA withholding</b>	<b>\$150,000</b>		
	<b>Social Security-OASDI</b>	<b>7.65%</b>	<b>\$9,065</b>
	<b>Medicare</b>	<b>1.45%</b>	<b>\$457</b>
			<b>\$9,522</b>
<b>Net income from Self-Employment activities</b>	<b>\$40,000</b>		
<b>Fraction to get equivalent for half of SE tax</b>	<b>92.35%</b>		
<b>Net Self-employment income - Total</b>	<b>\$36,940</b>		
	<b>Social Security-OASDI</b>	<b>\$0</b>	<b>15.30%</b>
	<b>Medicare</b>	<b>\$36,940</b>	<b>2.90%</b>
<b>Total self-employment tax</b>			<b>\$1,071</b>
<b>Total</b>			<b>\$10,593</b>
<b>The extra .9% medicare tax under the affordable care act is not considered here.</b>			

**Sec. 1. Tax Imposed****(a) Married Individuals Filing Joint Returns and Surviving Spouses.**

There is hereby imposed on the taxable income of—

- (1) every married individual (as defined in section 7703) who makes a single return **jointly** with his spouse under section 6013, and
- (2) every surviving spouse (as defined in section (a)), a tax determined in accordance with the following table. [omitted]

.....

**§ 11 - Tax imposed****(a) Corporations in general**

A tax is hereby imposed for each taxable year on the **taxable income of every corporation.**

**(b) Amount of tax**

- (1) In general. The amount of the tax imposed by subsection (a) shall be the sum of—
  - (A) **15 percent of so much of the taxable income as does not exceed \$50,000, .....**

**Sec. 61. Gross Income Defined.****General Definition.**

Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to):

- (1) Compensation for services, including fees, commissions, fringe benefits, and similar items;
- (2) Gross income derived from business;
- (3) Gains derived from dealings in property;
- (4) Interest; (5) Rents; (6) Royalties;
- (7) Dividends;
- (8) Alimony and separate maintenance payments;
- (9) Annuities;
- (10) Income from life insurance and endowment contracts; (11) Pensions;
- (12) Income from discharge of indebtedness;
- (13) Share of partnership gross income;
- (14) Income in respect of a decedent; and
- (15) Income from an interest in an estate or trust.

(b) Cross References. For items specifically included in gross income, see part II (sec. 71 and following). For items specifically excluded from gross income, see part III (sec. 101 and following).

**Sec. 62. Adjusted Gross Income Defined.**

**(a) General Rule.** For purposes of this subtitle, the term “adjusted gross income” means, in the case of an individual, gross income minus the following deductions:

- (1) Trade and business deductions. The deductions allowed by this chapter (other than by part VII of this

subchapter) which are attributable to a trade or business carried on by the taxpayer, if such trade or business does not consist of the performance of services by the taxpayer as an employee.

-----material omitted

- (3) Losses from sale or exchange of property-----material omitted
- (7) Retirement savings. The deduction allowed by section 219 (relating to deduction for certain retirement savings). ---material omitted

**Sec. 63. Taxable Income Defined.**

**(a) In General.** Except as provided in subsection (b), for purposes of this subtitle, the term “taxable income” means gross income minus the deductions allowed by this chapter (other than the standard deduction).

**Sec. 121. Exclusion of Gain from Sale of Principal Residence.**

**(a) Exclusion.** Gross income shall not include gain from the sale or exchange of property if, during the 5-year period ending on the date of the sale or exchange, such property has been owned and used by the taxpayer as the taxpayer's principal residence for periods aggregating 2 years or more.

**(b) Limitations.**

- (1) In general. The amount of gain excluded from gross income under subsection (a) with respect to any sale or exchange shall not exceed \$250,000.
- (2) Special rules for joint returns. In the case of a husband and wife who make a joint return for the taxable year of the sale or exchange of the property—
  - (A) \$500,000 limitation for certain joint returns. Paragraph (1) shall be applied by substituting “\$500,000” for “\$250,000” if—
    - (i) either spouse meets the ownership requirements of subsection (a) with respect to such property;
    - (ii) both spouses meet the use requirements of subsection (a) with respect to such property; and
    - (iii) neither spouse is ineligible for the benefits of subsection (a) with respect to such property by reason of paragraph (3).

**Sec. 31. Tax Withheld On Wages.**

**(a) Wage Withholding for Income Tax Purposes.**

- (1) In general. The amount withheld as tax under chapter 24 shall be allowed to the recipient of the income as a credit against the tax imposed by this subtitle. [material omitted]

# Federal Income Tax Law

Taxes, Credits	<b>1-59</b>	<b>Taxes, credits, taxes (Subchapter A)</b>
	<b>1-15</b>	Rates - Individuals, Corporations (status 7703)
	<b>21-52</b>	Credits
	<b>53-59A</b>	Alternative Minimum Tax
Income, exclusions	<b>61-153</b>	<b>Income (Subchapter B)</b>
	<b>61-68</b>	Gross Income, Definitions
	<b>71-90</b>	Items included in income
	<b>101-150</b>	Items excluded from income
Deductions	<b>151-153</b>	Personal exemptions
	<b>161-248</b>	<b>Deductions</b>
	<b>161-199</b>	For Individuals & Corporations
	<b>211-224</b>	For Individuals
Property	<b>241-249</b>	For Corporations
	<b>261-291</b>	<b>Limits on deductions</b>
		See 261, 263, 267, 274, 280A, F, G
	<b>1000-1200s</b>	<b>Basis, Gain or Loss (Subchapter O, P)</b>
Entities	<b>1001, 1002+</b>	Compute gain or loss, Basis rules
	<b>1031-33</b>	Tax free exchanges (tax deferred exchanges)
	<b>1211, 12, 1221+</b>	Capital assets, gains, losses
	<b>1231,45,50,-291</b>	Gain or loss on sale of business property
Other		<b>Tax Entities, etc.</b>
	<b>300's</b>	Corporations –Owner equity. (Subchapter C)
	<b>700's</b>	Partnerships. (Subchapter K)
	<b>1361+</b>	S corporations. (Subchapter S)
	<b>401+</b>	Retirement plans, (401(k)) etc. (Subchapter D)
	<b>421+, Also 83</b>	Stock options.
Filing, penalties	<b>501+</b>	Non-profit organizations.
	<b>641+</b>	Trusts and estates. (Subchapter J)
		<b>Some other groups</b>
	<b>441 - 483</b>	Accounting methods
	<b>531+</b>	Corporate penalty taxes (PHC, Accumulated Earn)
	<b>800's</b>	Insurance Companies, Mutual funds, etc.
Define	<b>900's</b>	Foreign income, etc.
	<b>1401</b>	Self-employment tax (Chapter 2)
Define	<b>1501</b>	Consolidated returns
	<b>2001, 2501</b>	Estate tax, Gift tax (Subtitle B)
		<b>6000s - Records, returns, penalties (Subtitle F)</b>
	<b>6001</b>	Taxpayers must keep records
	<b>6012, 6072</b>	Return - Indiv., Corp., Estate, Trust. Deadline
	<b>6501, 6511</b>	Statute of Limitations - Assessment, Refund
Define	<b>6601, 6611</b>	Interest on late or underpayment, refund
	<b>6651, 6654</b>	Penalty-late filing or payment of tax, Estimated tax
Define	<b>6662, 6694</b>	Penalty for bad research- Taxpayer. Preparer.
		<b>Definitions</b>
	<b>7701, 7805</b>	Definitions – check-the-box. Regulations.

# Statute of Limitations

2015				2016				2017				2018				2019			
Jan	April	July	Oct	Jan	April	July	Oct	Jan	Apr	July	Oct	Jan	Apr	July	Oct	Jan	Apr	July	Oct
Apr-15				Apr-15				Apr-15				Apr-15				Apr-15			
<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">                     Est. Payments for tax year 2015                      Penalty-underpay.                 </div>				↑ Form 1040 for 2015															
				Interest on late payments ---> for Tax Year 2015 Penalty for late filing or payment															
				Stat. of Limit. for 2015 return filed on 4-15-2016															

# Penalties, Statute of Limitations, Estimated Tax

2015				2016				2017				2018				2019			
Jan	April	June	Sept	Jan	April	June	Sept	Jan	April	June	Sept	Jan	April	June	Sept	Jan	April	June	Sept
Apr-15				Apr-15				Apr-15				Apr-15				Apr-15			
<b>Estimated Payments</b>				File 1040 for 2015															

## 1. Penalty for Late Payment (Text page 2-3, 2-27, 8-38)

### **Penalty for late filing, or late payment of tax (after April 15, etc.)**

- Sec. 6651(a) 5% per month for FAILURE TO FILE TAX RETURN by the deadline (up to 25%)  
 (b) .5% per month for FAILURE TO PAY INCOME TAX by the deadline (up to 25%)  
 Limit - (In effect you may pay 5% per month for up to 5 months, then 0.5% per month.)

## 2. Claim for refund, or IRS assessment (Text page 2-3, 2-27)

### **Statute of Limitations for 2015 return filed on 4-15-2015**

- Sec. 6501(a) Period for IRS ASSESSMENT is generally 3 years.  
 (b) Period starts when returned is files (or on filing deadline if return is filed early).  
 Sec. 6511(a) Period for TAXPAYER TO AMEND return (claim a refund) is generally 3 years.  
 Period extends for two years beyond date of additional taxpayer payment, if that date is later.

## 3. Failure to Withhold or Pay Enough Tax. (Text page 2-27)

### **Penalty for underpayment of Estimated Tax-Individuals**

### **Estimated Payments for tax year 2015 (Chart above)**

- Sec. 6654(a) PENALTY:  $\text{Rate} \times \text{Amount of Underpayment} \times \text{Period of underpayment}$   
 Sec. 6654(b) Underpayment = required payment, less actual payment  
 Sec. 6654(d)(1)(A) Required installment payment is 25% of required annual payment  
 Sec. 6654(d)(1)(B) Required annual payment is:

- (i) 90% of tax on current year return, or
- (ii) 100% of tax shown on prior year tax return

- Sec. 6654(d)(1)(C) If prior year AGI exceeded \$150,000, substitute 110% for 100% in line above.  
 Sec. 6654(e)(1) No penalty if underpayment is less than \$1,001

## 4. File Accurate Return (Text page 2-27)

### **Accuracy Related Penalty for taxpayer (See Sec. 6694 for CPA)**

- Sec. 6662(a) PENALTY of 20% of underpayment, if substantial or there was negligence, etc  
 Sec. 6662(d)(1)(A) Individual amount is substantial:  
 if it exceeds greater of \$5,000 or 10% of tax shown on return  
 Sec. 6662(d)(2)(B) Penalty not applicable to part of  
 understatement if there is SUBSTANTIAL AUTHORITY or  
 understatement if there is REASONABLE BASIS and facts are disclosed  
 Sec. 6664( c) NO PENALTY if there is reasonable cause for the understatement

## Joseph Peery - Divorce and Alimony

During the tax year, Joseph Peery made total payments of \$90,264 to Ms. Peery. (Ms. Peery is Joseph's former wife.)  
 The payments were made in compliance with his divorce agreement with Ms. Peery. Joseph claimed an alimony deduction in the amount of \$90,264.  
 Joseph believes that all of the payments of \$90,264 qualify as deductible alimony. The tax return showed the amount of federal income tax after credits to be \$30,000. The IRS issued a notice of deficiency to the taxpayers.  
 The IRS seeks to disallow \$63,500 of the deduction, claiming it is a property settlement. The IRS determined an \$18,000 deficiency on the Federal income tax.  
 The IRS claims that income tax after credits should be \$48,000.  
 An accuracy-related penalty under section 6662(a) is also being proposed by the IRS.

**1** Assume the IRS is correct. The payment of \$63,500 is not deductible. Is the understatement is substantial? Provide computation and citation.

An UNDERSTATEMENT is the excess of: (1) the amount of tax required to be shown on the tax return over (2) the amount of the tax which is shown on the return.	Sec. 6662(d)(2)
An understatement of tax is "substantial" if it exceeds the greater of: (1) 10% of the tax required to be shown on the return, or (2) \$5,000.	Sec. 6662(d)(1)

Amount of tax required to be shown on the return		
Amount of tax shown on the return		
Excess		
Greater of 10% of tax of \$48,000, or \$5,000.		
Underpayment of tax is substantial, because it exceeds threshold.		Sec. 6662(d)(2)

**2** How much penalty under Section 6662 will be proposed by the IRS? Provide computation & citation.

Amount of underpayment		
Penalty rate of 20%		
Penalty amount		Sec. 6662(a)

**3** Assume you prepared the return, and charged a \$3,600 fee return preparation. What is the amount of the penalty under Section 6694 that the IRS may potentially assess against you, the preparer? Provide computation & citation.

Penalty is greater of:		
(1) \$1,000, or		
(2) 50% of your fee for tax preparation		
Fee for preparing the return		
Amount equal to 50% of your fee		
Potential preparer penalty		
Section 6694(a)(1)		

**4** Please identify some factors (or reasons) that may be presented by the taxpayer to convince the IRS or the court that the Section 6662 penalty should not be imposed. Provide citations.

1.	Sec. 6662(d)(2)(B)(i)
2.	Sec. 6662(d)(2)(B)(ii)
3.	Sec. 6664( c)(1)
Includes reliance on tax advice of a tax professional.	

## Joseph Peery - Divorce and Alimony

During the tax year, Joseph Peery made total payments of \$90,264 to Ms. Peery. (Ms. Peery is Joseph's former wife.)  
 The payments were made in compliance with his divorce agreement with Ms. Peery. Joseph claimed an alimony deduction in the amount of \$90,264.  
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 The IRS seeks to disallow \$63,500 of the deduction, claiming it is a property settlement. The IRS determined an \$18,000 deficiency on the Federal income tax.  
 The IRS claims that income tax after credits should be \$48,000.  
 An accuracy-related penalty under section 6662(a) is also being proposed by the IRS.

- 1** Assume the IRS is correct. The payment of \$63,500 is not deductible.  
 Is the understatement is substantial? Provide computation and citation.

An UNDERSTATEMENT is the excess of:  
 (1) the amount of tax required to be shown on the tax return over  
 (2) the amount of the tax which is shown on the return. Sec. 6662(d)(2)  
 An understatement of tax is "substantial" if it exceeds the greater of:  
 (1) 10% of the tax required to be shown on the return, or (2) \$5,000. Sec. 6662(d)(1)

Amount of tax required to be shown on the return	\$48,000	
Amount of tax shown on the return	\$30,000	
Excess	\$18,000	
Greater of 10% of tax of \$48,000, or \$5,000.	\$5,000	
Underpayment of tax is substantial, because it exceeds threshold.		Sec. 6662(d)(2)

- 2** How much penalty under Section 6662 will be proposed by the IRS?  
 Provide computation & citation.

Amount of underpayment	\$18,000	
Penalty rate of 20%	20%	
Penalty amount	\$3,600	Sec. 6662(a)

- 3** Assume you prepared the return, and charged a \$3,600 fee return preparation.  
 What is the amount of the penalty under Section 6694 that the IRS may potentially assess against you, the preparer? Provide computation & citation

Penalty is greater of:		
(1) \$1,000, or		\$1,000
(2) 50% of your fee for tax preparation		
Fee for preparing the return	\$3,600	
Amount equal to 50% of your fee		\$1,800
Potential preparer penalty		\$1,800
Section 6694(a)(1)		

- 4** Please identify some factors (or reasons) that may be presented by the taxpayer to convince the IRS or the court that the Section 6662 penalty should not be imposed. Provide citations.

1. Substantial authority	Sec. 6662(d)(2)(B)(i)
2. Adequate disclosure and reasonable basis	Sec. 6662(d)(2)(B)(ii)
3. Reasonable cause and taxpayer acted in good faith.	Sec. 6664( c)(1)
Includes reliance on tax advice of a tax professional.	