

ACCT 4331
Tax Return Project
Spring 2018

James A. Varney and Denise M. Varney

1. James and Denise Varney are married and file a joint return. James is 48 years of age and Denise is 49. James is employed full-time as an electrical engineer for Livingston Unitech Corporation, Ltd. Denise is a self-employed design consultant. They have two children, Pamela and Vernon, who live at home and receive all of their support from their parents. Pamela is 20 years old and attended college on a full-time basis, and Vernon is a 17-year-old high school student. The Varneys currently live at 3102 Willowpoint Drive, Houston, Texas 77069, in a home they have owned since July, 1997. The phone number they wish to show on their tax return is James's daytime office number of 713-984-8987.
2. Social security numbers (SSN) and birthdates (DOB) for James, Denise, and their children are provided below:

James	A.	Varney	(DOB:	11/5/1969)
.....			SSN:	332-25-9610
Denise	M.	Varney	(DOB:	4/12/1968)
.....			SSN:	333-51-9251
Pamela	G.	Varney	(DOB:	11/6/1997)
.....			SSN:	452-19-6552
Vernon	N.	Varney	(DOB:	2/12/2000)
.....			SSN:	452-23-5694

3. James, Denise, Pamela, and Vernon were covered by health insurance all year.
4. Neither Denise nor James want to contribute \$3 to the Presidential Election Campaign Fund.
5. James and Denise want to file their return on paper.
6. James received a Form W-2 for 2017 from his employer, Livingston Unitech Corporation, Ltd., 3445 Synergy Lane, Houston TX 77069 (EIN 68-3123857) which reported the following relevant information:

Box 1: Gross wages and taxable benefits	\$118,000
Box 2: Federal income tax withheld	21,500
Box 3: Social Security wages	118,000
Box 4: Social Security tax withheld	7,316
Box 5: Medicare wages	118,000
Box 6: Medicare tax withheld	1,711

7. Denise operates her business under the name "Design by Denise." Her office is located at 2359 Dawnridge Drive, Houston, Texas 77025. The federal EIN for her business is 51-4867579 and the principal business code is 541400. Denise, who materially participates in her business, has operated it profitably for 3 of the last 4 years and is fully "at risk" with respect to her investment. She also has filed all required Forms 1099.
8. In accounting for her business, Denise uses the cash method. For 2017, her records show the following income and expenses. She participated in James's health insurance plan and did not have to pay any premiums.

Gross receipts (not reported on Form 1099)	\$90,000
Gross receipts (reported on Form 1099; payer was Bernice Ng's Furnishings, EIN 68-8752318, nonemployee compensation)	25,000
Expenses:	
Advertising	2,000
Insurance	4,000
Legal services	3,500
Office expense	4,300
Equipment and machinery rent	2,800
Office rent	20,000
Supplies	7,000
Taxes and licenses	1,500
Utilities	3,400
Subscriptions	500

9. In connection with her business, Denise often travels from her business location to the homes and offices of her clients, where she provides advice and expertise on interior design. During 2017, her written auto log shows that she drove her vehicle (a 2017 Mitsubishi Mirage that she purchased and put in service on May 13, 2016) 22,400 miles for business purposes, 3,800 miles for commuting, and 1,800 miles for personal purposes. Denise did not keep track of all her specific expenditures for the car and she wishes to deduct her auto expenses using the standard mileage rate for 2017. She has written evidence to support her mileage. The business car was available for use during off-duty hours, but she and her spouse also have another vehicle available for personal use.
10. Also in connection with her business, Denise purchased a Mac computer and HP laser color printer. The computer was purchased for \$2,200 on November 10, 2017. The printer was purchased for \$5,800 on September 30, 2017. Denise used the computer and printer for business purposes at her office 85 percent of the time, and personal purposes 15 percent of the time, for which she has written evidence. Denise would like to deduct the maximum allowable amount on each of these assets.

11. In addition, Denise sold a storage building that she used in her business. She paid \$30,000 for the building on January 12, 2012, and sold it on March 14, 2017 for \$33,000. Her adjusted basis in the building was \$26,027. (Assume this basis already accounts for whatever you claim as a 2017 depreciation deduction for the building.) Denise depreciates the building using straight-line depreciation. The transaction was reported on Form 1099-S, and Denise has no prior year section 1231 losses.
12. James and Denise received Forms 1099-INT reporting in box 1 (regular or OID interest) or box 8 (tax-exempt interest) the following interest income during 2017:

	Box 1	Box 8
	<u>Regular or OID</u>	<u>Texas</u>
Johnson & Johnson	700	0
Caterpillar	900	0
Fidelity Tax-Free Bond Fund	0	600

13. James and Denise received Forms 1099-DIV reporting the following dividends during 2016.

	Box 1a	Box 1b
	<u>Ordinary</u>	<u>Qualified</u>
American Sun Corp.	\$400	\$ 400
Global Genetic Dynamics ...	200	200
J.P. Morgan	300	300

14. James and Denise have neither a foreign bank account nor a foreign trust.
15. James and Denise received Form 1099-B from Morgan Stanley reporting the following stock sales during 2016. For all of the sales, the basis amount was reported to the IRS.

<u>Corporation</u>	<u>Shares</u>	<u>Date Acquired</u>	<u>Date Sold</u>	<u>Sales Price</u>	<u>Basis Box 3</u>
Bishop Radiocorp, Inc.	600	2-15-17	9-18-17	\$23,200	\$18,175
McGowan Chemical	800	4-20-17	10-21-17	<u>10,000</u>	<u>13,800</u>
Total short-term				\$33,200	\$31,975
Patel Royal Electric, Inc.	300	7-25-11	11-05-17	6,700	8,500
Agro Memory Group	100	3-10-10	12-12-17	<u>9,400</u>	<u>7,000</u>
Total long-term				\$16,100	\$15,500

16. Statements describing the above sales are not being attached separately in lieu of Form 8949.

17. In a transaction not reported on Form 1099-B, James sold two African jewels on August 13, 2017 for \$2,400. He bought the jewels on July 27, 1997 for \$300.
18. In August 2017, Pamela enrolled on a full-time basis for a bachelor's degree at the University of Houston, 4800 Calhoun Road, Houston, Texas 77004 (EIN 74-6001399). Pamela graduated from Memorial City High School in May and attended the University of Houston from August to December, 2017. In August, James and Denise paid \$3,500 in qualified tuition for Pamela's first semester. In December, they paid another \$3,500 in qualified tuition for her second semester beginning in January, 2018. Pamela received a Form 1098-T from the University reporting payments received for qualified tuition and related expenses of \$7,000 in box 1. Box 2 is empty but Box 7 is checked. Assume that, if eligible, the Varney's want to claim credits rather than deductions for these expenses.
19. Neither Pamela nor Vernon have been convicted of a felony for possessing or distributing a controlled substance.
20. James and Denise made timely estimated Federal income tax payments of \$10,000 for the year (\$2,500 each quarter on April 15, June 15, September 15, 2017 and January 15, 2018).
21. James and Denise incurred and paid the following personal expenses during 2017:

<u>Taxes:</u>	
Real estate taxes on home (with State Street Bank (reported on Form 1098 together with mortgage interest- see interest, below)	8,691
Sales tax rate (State 6.25%; Local 2.00%)	8.25%
<u>Interest:</u>	
Home mortgage with State Street Bank (also reported on Form 1098 together with Real Estate taxes, see above)	7,600
<u>Cash contributions</u> (all substantiated):	
United Way	1,000
Make A Wish Foundation	2,275

22. Use these check figures on Form 1040 to help you in preparing your return:

Business income (line 12)	\$ 47,056
Total income (line 22)	178,454
AGI (line 37)	175,129
Taxable income (line 43)	137,349
Tax overpaid (line 75)	33

Assignment:

Complete the Varney's Federal income tax return for 2017. Assume that the Varneys are filing their return on time (before April 17, 2018). In preparing the return, you will need to use **forms 1040, 8949, 8863, 4562, 4797** and **schedules A, B, C, D, and SE**. The total tax return is approximately 19 pages. If the Varneys have a refund due, request that it be credited to their 2018 taxes.

Assemble and turn in a hard copy of your completed return for James and Denise Varney assembled as it would be filed with the IRS. Supporting and itemized statements should be attached as appropriate, and tax forms should be assembled in the correct order (see #2, below). Input sheets and taxpayer worksheets, however, should not be attached.

Notes:

1. The project is designed so that the tax return may be completed by hand. The numbers must be legible. There are no points if Prof. Cutler cannot read what you wrote. You may use software if you wish, but are not required to do so. If you use software, **write the name of the program you used** at the top of your assignment.
2. The correct assembly order for the Varney's tax return should be: 1040, Schedule A, Schedule B, Schedule C, Schedule D, 8949, Schedule SE, 4797, 8863, and 4562.
3. The project is **due by May 8th, 2018 at 11:00am**. You may turn it in at the final exam, or earlier than that in class or office hours, or by sliding it under Prof. Cutler's door, 390C Melcher Hall. You may work in groups of up to 3 students from any section. All students in the group turn in one project with all of their names and receive the same grade. Write your name(s) clearly at the top of the first page, in alphabetical order.