# CHAPTER 8

**DEDUCTIONS: EMPLOYEE AND SELF-EMPLOYED-RELATED EXPENSES**

**SOLUTIONS TO PROBLEM MATERIALS**

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<thead>
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<th>Question/Problem</th>
<th>Topic</th>
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<td>Examples of miscellaneous itemized deductions subject to the 2% floor</td>
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<td>* 37</td>
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<td>Business gift</td>
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<td>Home office expenses</td>
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<td>Partially reimbursed expenses</td>
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<td>Miscellaneous employee expenses</td>
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<td>* 51</td>
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<td>Modified 51</td>
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*The solution to this problem is available on a transparency master.
### CHECK FIGURES

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<tr>
<td>41.b</td>
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<tr>
<td>41.c</td>
<td>$0.</td>
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<td>41.d</td>
<td>$1,900.</td>
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<td>43.a</td>
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<tr>
<td>45.b</td>
<td>Schedule C.</td>
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<td>$9,000 ($5,940 + $3,060) for AGI; $2,080 from AGI.</td>
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<td>47</td>
<td>$8,800 ($6,160 + $2,640) for AGI; $4,120 from AGI.</td>
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<td>AGI $58,600; deduction from AGI $7,578.</td>
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<td>49.a</td>
<td>AGI $96,750.</td>
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<td>49.b</td>
<td>deductions from AGI $14,635.</td>
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<tr>
<td>51</td>
<td>Refund due of $1,887.</td>
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DISCUSSION QUESTIONS

1. a. Employees are subject to Social Security tax, while self-employed persons are subject to self-employment tax. p. 8-29
   b. Except for moving expenses and reimbursed employee expenses, any deductible expenses of employees are classified as deductions from AGI. Expenses of self-employed persons are classified as deductions for AGI. p. 8-3
   c. Employees report their deductible expenses on Form 2106 and Schedule A. Self-employed persons use Schedule C. p. 8-3

2. a. Self-employed classification. Employee status is reflected if payment is based on time spent.
   b. Employee classification.
   c. Self-employed classification.
   d. Employee classification.
   p. 8-3

3. The only portion of the transportation that is deductible by Crystal is the distance between the first and second jobs. The rest is nondeductible commuting. p. 8-5 and Example 5

4. In terms of income derived, the newspaper column he writes predominates. Since the column is written at home, this would be considered his tax home. In this sense, the trips to the university can be regarded as going to a second job. Consequently, the use of his car for this purpose should be deductible. pp. 8-5, 8-8, and Example 5

5. a. For newly purchased automobiles, the use of the automatic mileage method minimizes the depreciation deduction (e.g., no MACRS statutory percentage, no 30% additional allowance, and no § 179 election to expense). Thus, minimum basis reduction takes place and more depreciation becomes available for later years.
   b. The election of the automatic mileage method is not available in situations where two or more vehicles are in use for business purposes. It appears that Colin and his brother plan on using multiple vehicles to operate the airport cab service.
   pp. 8-6 and 8-7

6. No. She was not away from home due to the “overnight” rule—no sleep or relief from work. p. 8-8

7. As the problem does not provide certain key factual information, some probable assumptions must be made. As Hollis is a key player for a major league professional football team, his salary from the Sharks surely dwarfs what he receives from the bank. Also, he probably spends as much time (counting pre-and post-season), if not more, in his capacity as a football player than working for the bank. Consequently, his tax home is in Miami. His only deductible expenses would be those incurred in connection with his job in Springfield. p. 8-8
8. No. Jim was not away from home overnight. p. 8-8

9. A taxpayer is never away from home if his or her job is the tax home. Such would be the case of the itinerant worker or trucker who lives where they work.

   a. If the taxpayer is never away from home, then all living expenses, such as meals and lodging, become personal and are nondeductible.

   b. The key to being away from home for tax purposes is the duplication of living expenses. For example, the truck driver who otherwise sleeps at home will be duplicating lodging expense when a motel room is rented while on the road.

   p. 8-8 and Example 12

10. Dr. Fuerst’s expenses, except for the 50% cutback for meals, should qualify as deductible travel. Expenses attributable to Mr. Fuerst do not qualify. Compare the results of Examples 16 and 17.

11. If obtaining the education does not qualify as a deduction, related travel expenses are not allowed. Thus, none of these expenses are deductible. p. 8-9 and Example 18

12. Travel days count as business days. The weekend counts as business days if the prior Friday and subsequent Monday are business days. The same holds true for a legal holiday. By utilizing these guidelines, Marge can enhance her leisure time while maximizing her deductions. p. 8-10

13. Quincy did not satisfy the 38-week time requirement. So he has two choices. First, he may increase his income for 2004 by the amount of moving expenses deducted on the 2003 tax return. Second, he can file an amended return for 2003 and recompute his tax after deleting the moving expenses deduction. p. 8-12

14. First, storage expenses qualify for the deduction for expatriates. Second, the time test does not apply when the expatriate returns to the U.S. to retire. p. 8-30

15. a. The deduction under § 222 is classified as a deduction for AGI. Unless reimbursed by an employer pursuant to an accountable plan, regular education expenses of an employee are deductions from AGI. Further, they are subject to the 2% of AGI floor.

   b. Section 222 education expenses need not be related to a taxpayer’s trade or business. Thus, they need not be to maintain or improve existing skills or be required by law or the employer to retain existing employment as is the case for regular education expenses.

   c. For § 222 purposes, the tuition must be paid to an institution of higher learning—post-secondary education is involved. “Tuition and related expenses” are narrowly construed and do not include such items as books, and room and board. As a result, § 222 is more restrictive in terms of coverage than the regular itemized deductions for education expenses.

   d. Under § 222, the AGI limitations are summarized in the solution to problem 16. Note that different limitations apply for tax years 2004-2005 than for tax years 2002-2003. Unreimbursed employee regular education expenses are deductions from AGI and are subject to the 2% of AGI floor as to deductibility.
16. The changes to the AGI limitations and the maximum amounts allowed as deductions under § 222 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Single</th>
<th>Married (filing jointly)</th>
<th>Maximum Deduction</th>
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<td>2002-2003</td>
<td>Up to $65,000</td>
<td>$130,000</td>
<td>$3,000</td>
</tr>
<tr>
<td></td>
<td>Over 65,001</td>
<td>130,001</td>
<td>-0-</td>
</tr>
<tr>
<td>2004-2005</td>
<td>Up to 65,000</td>
<td>130,000</td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>to 80,000</td>
<td>150,000</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>Over 160,000</td>
<td>80,000</td>
<td>-0-</td>
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</table>

p. 8-16 and Table 8-1

17. The cutback adjustment does not preclude the three-martini lunch, but it does reduce the deductible amount of business meals. The three-martini lunch was, nevertheless, one of the reasons why the cutback adjustment was enacted. p. 8-17

18. a. The employee is subject to the 50% cutback adjustment. Example 29
b. The employer is subject to the 50% cutback adjustment. Example 29
c. Neither is subject to the cutback adjustment. The award is compensation to the employee and is fully deductible by the employer. Example 31
d. No one is subject to the cutback adjustment. The subsidized eating facility provision represents one of the exceptions to the cutback adjustment rule. Example 32
e. Employer paid recreational activities are not subject to the cutback adjustment. p. 8-18
f. *De minimis* fringe benefits are not subject to the cutback adjustment. Example 33

19. The membership dues Sandra pays to belong to the Wichita Country Club are not deductible. The cost of business lunches is, however, deductible (subject to the 50% cutback adjustment). p. 8-19 and Example 36

20. Since the tickets were purchased at the last minute, a premium was probably paid. Only the cost of regular tickets (as measured by their face value) is deductible. Any such deduction is subject to the 50% cutback rule.

If the entertainment is of the “associated with” variety, attendance at the game must be preceded or followed by a bona fide business discussion. In addition, a partner or an employee of the law firm must be present during the game. pp. 8-18, 8-19, and Example 37
21. a. If Olaf is an employee, he must make an allocation of the property taxes and interest on his home mortgage. The portion allocated to the home office is treated as a miscellaneous itemized deduction subject to the 2% of AGI floor. The portion not allocated to the home office is listed on Schedule A under the appropriate classification (i.e., “taxes,” “interest”).

b. If Olaf is self-employed, the allocated amounts are listed on Schedule C and, as such, are deductions for AGI. The portion not allocated to the home office is treated in the same manner as described in part a. above.

pp. 8-21 and 8-22

22. Myrna should claim $400 (employee reimbursed expenses) and $250 (school supplies provision) as deductions for AGI. The balance of $750 is a deduction from AGI and will be subject to the 2%-of-AGI floor. Further, the $750 will not be available if Myrna chooses the standard deduction and does not itemize. p. 8-23 and Example 40

23. Since this seems to be Trent’s first job, his job search expenses would not qualify for deduction. His moving expenses, however, should qualify as deductions for AGI. In this regard, the move covers Florida to New Orleans (rather than Vanderbilt to New Orleans) because college attendance normally does not establish residency. pp. 8-12, 8-13, and 8-23

24. a. Under a traditional IRA, a contribution is deductible, income accumulates tax-deferred, and distributions are fully taxed. Under a Roth IRA, no deduction is allowed for the contribution, income accumulates tax-free, and distributions are not subject to tax.

b. A traditional IRA and Keogh (H.R. 10) plans follow the same pattern of a deduction followed by a deferral of income tax. IRAs, however, generally arise in an employment setting (i.e., taxpayer is an employee); whereas Keoghs are available to those who are self-employed.

p. 8-24

25. Records should reflect the following information:

- The amount of the expense.
- The name and place of travel or entertainment (or date of gift).
- The business purpose of the expense.
- The business relationship of the taxpayer to the person entertained (or receiving the gift).

p. 8-25

26. a. The reimbursements and expenses are omitted from the return.

b. No reporting is required. Provided the other substantiation requirements are met, the amount of the expenses is deemed substantiated at the Federal per diem rate.
c. All reimbursements are reported as additional wages (gross income) and the expenses (except moving) are deductible from AGI subject to the 2% of AGI floor. Both Form 2106-EZ (Unreimbursed Employee Expenses) and Schedule A are used. If, however, the employee makes use of the standard deduction, he or she is in the unfortunate position of having to report the reimbursements in gross income with no deduction for the expenses.

pp. 8-25 to 8-27

27. When a reimbursement is made in a single amount, an allocation must be made to determine the appropriate portion of the reimbursement that applies to meals and entertainment and to other employee expenses. Thus, the portion of the reimbursement to be allocated to meals and entertainment is as follows:

\[
\frac{2,000 \text{ (meals and entertainment)}}{7,000 \text{ (total expenses)}} \times 4,900 = 1,400
\]

The unreimbursed portion, then, is $600 ($2,000 meals and entertainment expenses – $1,400 allocation of the reimbursement). The remainder of the reimbursement is $3,500 ($4,900 total reimbursement – $1,400 allocated to meals and entertainment) and reduces the transportation and lodging expenditures.

Jeremy’s deduction is $1,800, determined below:

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meals and entertainment [50% X ($2,000 – $1,400)]</td>
<td>$300</td>
</tr>
<tr>
<td>Transportation and lodging [5$5,000 – $3,500 (reimbursement)]</td>
<td>$1,500</td>
</tr>
<tr>
<td>Total deduction</td>
<td>$1,800</td>
</tr>
</tbody>
</table>

p. 8-27 and Example 43

28. It would be unwise for Kim to choose the $48,000 option due to the tax consequences involved. This option makes her subject to the 50% cutback adjustment for business meals and entertainment. But even the portion of these expenses allowable as deductions may not benefit Kim unless she is in a position to itemize her deductions (i.e., forgo the standard deduction). Furthermore, the expenses are subject to the 2% of AGI floor.

If on the other hand, Kim selects the $35,000 option, Crane Corporation must suffer the 50% cutback adjustment. pp. 8-17, 8-28, and 8-29

29. The first major tax problem Jeff is apt to encounter is the inability to deduct his moving expenses. This problem can be avoided if Jeff would satisfy either the 38-week rule (employee) or the 78-week rule (self-employed) once he moves to New Mexico. Being a physician, chances are good that Jeff would have little difficulty obtaining work in the medical field. Keep in mind that it is full-time employment that is required; the income level of such employment is immaterial. pp. 8-12, 8-30, and Example 45

30. a. Since the taxpayer is not on active duty, the uniforms are allowed. They are a deduction from AGI and subject to the 2%-of-AGI floor. p. 8-23

b. Deduction from AGI and subject to the 2%-of-AGI floor. p. 8-23

c. Deduction from AGI and subject to the 2%-of-AGI floor. As the taxpayer is not an elementary or secondary school teacher, the school supplies provision of $250 does not apply. Example 40
d. Nondeductible, as the IRS maintains that acquiring a law degree or taking the bar exam is qualifying for a new trade or business. p. 8-14

e. Nondeductible, as job-hunting expenses must involve the same trade or business. Switching from teacher to stockbroker involves different trades or businesses. p. 8-23

f. Nondeductible, as not directly related to the taxpayer’s trade or business (i.e., dentistry). Example 13

g. Safety clothing, if related to the job, is deductible. Since the taxpayer is self-employed, a deduction for AGI results. p. 8-23

PROBLEMS

31. 34 miles X 250 days = 8,500 miles. p. 8-5 and Example 5

32. 100 days X (20 miles + 18 miles + 10 miles) X $0.36 (automatic mileage rate for 2003) = $1,728. p. 8-5 and Example 6

33. Michael’s adjusted basis is determined as follows:

Cost of business portion (70% X $30,000) $21,000
Less depreciation:
2000 (13,000 miles X 14 cents) X .7 (1,274)
2001 (15,000 miles X 15 cents) X .7 (1,575)
2002 (16,000 miles X 15 cents) X .7 (1,680)
2003 (14,000 miles X 16 cents) X .7 (1,568)
Adjusted basis on 1/1/04 of business portion $14,903

[The adjusted basis for the automobile is the sum of the basis in the business portion and the basis in the personal use portion.]

<table>
<thead>
<tr>
<th>Business portion</th>
<th>$14,903</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal portion (30% X $30,000)</td>
<td>9,000</td>
</tr>
<tr>
<td>Total adjusted basis</td>
<td>$23,903</td>
</tr>
</tbody>
</table>

pp. 8-6, 8-7, and Example 9

34. a. Travel days count as business days and weekends also count as business days when preceded (i.e., Friday) and followed (i.e., Monday) by business days. For Samantha, Thursday is a personal day. Samantha’s deductible expenses are determined below:

| Airfare | $2,000 |
| Lodging (5 nights X $200) | 1,000 |
| Meals (4 days X $120) X 50% (cutback adjustment) | 240 |
| Total | $3,240 |

Example 20

b. As Samantha was away from home for seven days or less, all of the airfare is deductible and no apportionment is required. [Note: Samantha also passes the
less than 25% for personal purposes test (i.e., one day out of seven is less than 25%). Consequently, Samantha’s deductible expenses are $3,240—as determined in part a. of this problem. Examples 22 and 23

c. Because Samantha is self-employed, a deduction for AGI results. p. 8-3

35. a. Since Macy is on temporary assignment is Alabama, her tax home has not changed. She is allowed to deduct $310 (subject to the 50% cutback adjustment for meals), which is what it would have cost to spend the weekend at her temporary assignment. Note that her expenses during the week (subject to the 50% cutback adjustment for meals) also are deductible.

b. Now, she can deduct only $200, her actual cost.

p. 8-8 and Example 10

36. The Hortons’ deduction is determined as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airfare</td>
<td>$1,120</td>
</tr>
<tr>
<td>Hotel</td>
<td>450</td>
</tr>
<tr>
<td>Valet service</td>
<td>46</td>
</tr>
<tr>
<td>Meals (50% X $420)</td>
<td>210</td>
</tr>
<tr>
<td>Registration fee and program materials</td>
<td>740</td>
</tr>
<tr>
<td>Airport limousine</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,646</strong></td>
</tr>
</tbody>
</table>

As the Hortons are self-employed, a deduction for AGI results. Examples 14, 17, and 20

37. The portion of the trip that is to be regarded as business is 100%. Specific comments regarding this result are listed below:

- Travel days count as business days. This accounts for the first Friday and Wednesday and the second Tuesday.

- Weekends and holidays count as business if preceded and followed by business days. This makes both weekends count as business days.

- Although not mentioned in the text, unforeseen events (e.g., fog, terrorist activity) that preclude travel should count as travel days and, therefore, be classified as business days.

p. 8-10

38. a. Thirteen days. Since travel days count as business, and weekends count as business when preceding and succeeding days are business days, all of her absence is regarded as business.

b. If Monica does not satisfy the 7-day or less-than-25% tests, then part of her transportation cost is not deductible.

c. Monica cannot satisfy the 7-day test because she was away from home for more than 7 days. Under the less-than-25% test and not counting partial days, she could have vacationed for three more days assuming the days did not interfere with the preceding and succeeding days provision.
39. a. The move qualifies for deductibility. The fact that Cole goes from employee to self-employed status is of no consequence. Also immaterial is that he changes his profession (i.e., attorney to CPA). His deduction is as follows:

- Moving household effects $5,100
- Meals (no deduction is permitted) -0-
- Lodging 240
- Mileage (1,400 miles \( \times \$0.12 \)) 168

Total deduction $5,508

b. A deduction for AGI is allowed.

40. a. At most, $3,000 of the tuition could be a deduction for AGI. This assumes that the AGI limitations of § 222 are not exceeded ($65,000 for an unmarried return and $130,000 for a joint return).

b. Presuming $3,000 is claimed under § 222 [see part (a) above], the deduction from AGI is as follows:

- Tuition ($3,200 – $3,000) $ 200
- Books and course materials 450
- Lodging 1,000
- Meals ($1,800 \( \times \) 50% cutback adjustment) 900
- Laundry and dry cleaning 320
- Campus parking 200
- Auto mileage ($1,800 miles \( \times \)$0.36) 648

Total deduction from AGI $3,718

41. a. $3,000. The education does not have to be job related.

b. $4,000. The maximum allowed increases for years 2004 and 2005.

c. $0. Nothing is allowed as AGI exceeds $65,000.

d. $1,900. Another category of AGI (more than $65,000 and up to $80,000) for years 2004 and 2005. However, only the amount spent for tuition qualifies.

e. Zero, as to (a) and (b), because pursuing a law degree is treated as qualifying for a new trade or business. As to (c), the full $2,100 is allowed as the education is job related. As to (d), the $200 not allowed for books qualifies.

42. a. Due to the lack of accountability, Elvis must include the $13,200 travel allowance he receives from Crane Charter Jet Service in gross income. The amount of the deduction is determined as follows:
### Meals
- **Meals**: $5,040
- **Less cutback adjustment (35% X $5,040)**: $(1,764)$
- **Lodging**: 10,080
- **Transportation**: 432

Total: **$13,788**

*The phaseout of the cutback adjustment applies since Elvis is an airline pilot.*

b. The deduction is classified as a deduction from AGI, that is, due to the lack of accountability, the travel expenses are deductible in the same manner as unreimbursed expenses (i.e., miscellaneous itemized deductions subject to the 2% floor).

pp. 8-17 and 8-26

#### 43. a. Swan Corporation’s deduction is computed as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>$242</td>
</tr>
<tr>
<td>Cost of seats ($40 X 15)</td>
<td>$600</td>
</tr>
<tr>
<td>Total entertainment expense</td>
<td>$842</td>
</tr>
<tr>
<td>Less: 50% cutback adjustment</td>
<td>$(421)</td>
</tr>
<tr>
<td>Total deduction</td>
<td><strong>$421</strong></td>
</tr>
</tbody>
</table>

b. No. The deduction is determined by the seats available and not by those occupied.

p. 8-20 and Example 37

#### 44. $72 ($27 + $25 + $20). No deduction is allowed for the gift to George, since he is Kevin’s boss. The deduction for the gift to John is limited to $25. The deduction for the gifts to Darlene is limited to $27 ($25 + $2 for gift wrapping is allowed). p. 8-20

#### 45. a. The office in home expenses are $3,500, calculated as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real property taxes (20% X $4,000)</td>
<td>$800</td>
</tr>
<tr>
<td>Interest on home mortgage (20% X $5,000)</td>
<td>1,000</td>
</tr>
<tr>
<td>Operating expense of home (20% X $1,000)</td>
<td>200</td>
</tr>
<tr>
<td>Allocable depreciation</td>
<td>1,500</td>
</tr>
</tbody>
</table>

Total: **$3,500**

When combined with other expenses of the business ($3,200), the total of $6,700 exceeds the income from the business by $1,200 ($6,700 – $5,500). Thus, the depreciation allowed is limited to $300 ($1,500 – $1,200), making the **deductible** office in the home expense $2,300. The **nondeductible** $1,200 can be carried forward to future years.

b. Since Brittany is self-employed as to her financial planner business, all of these transactions end up on Schedule C of Form 1040 (i.e., deductions for AGI). First, however, Form 8829 (Expense for Business Use of Your Home) must be completed.

The remainder of the property taxes of $3,200 (80% X $4,000) and mortgage interest expense of $4,000 (80% X $5,000) not involved in the home office will
Deductions: Employee and Self-Employed-Related Expenses

qualify as itemized deductions (deductions from AGI) and can be claimed on Schedule A of Form 1040.

pp. 8-20 to 8-22 and Example 39

46. Will must first make an allocation to determine the appropriate portion of the reimbursement that applies to meals and entertainment and to other employee expenses.

\[
\frac{\$2,900 \text{ (meals)}}{\$13,700 \text{ (total expenses)}} + \frac{\$1,800 \text{ (entertainment)}}{\$13,700 \text{ (total expenses)}} = 34%
\]

Consequently, of the $9,000 reimbursement, 34%, or $3,060, applies to meals and entertainment and 66%, or $5,940, applies to the other employee expenses. The deductions for AGI and from AGI are reported on Form 2106 in the following manner:

<table>
<thead>
<tr>
<th></th>
<th>Other than Meals and Entertainment</th>
<th>Meals and Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging</td>
<td>$3,200</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Professional dues and subscriptions</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Meals ($2,900) and entertainment ($1,800)</td>
<td></td>
<td>$4,700</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$9,000</td>
<td>$4,700</td>
</tr>
<tr>
<td>Less: reimbursement (deductible for AGI)</td>
<td>(5,940)</td>
<td>(3,060)</td>
</tr>
<tr>
<td>Unreimbursed portion</td>
<td>$3,060</td>
<td>$1,640</td>
</tr>
<tr>
<td>Less: cutback adjustment</td>
<td></td>
<td>(820)</td>
</tr>
<tr>
<td>Unreimbursed deduction from AGI</td>
<td>$3,060</td>
<td>$820</td>
</tr>
</tbody>
</table>

The totals from Form 2106 are reported on Schedule A, then reduced by 2% of AGI:

\[
\text{Total unreimbursed employee expenses} = \$3,060 + \$820 = \$3,880
\]

\[
\text{Less: 2\% of $90,000 AGI} = \$1,800
\]

\[
\text{Total deduction from AGI} = \$2,080
\]

Example 43

47. Kenneth must make an allocation to determine the appropriate portion of the reimbursement that applies to meals and entertainment and to the other employee expenses:

\[
\frac{\$4,800 \text{ [meals ($2,800) and entertainment ($2,000)]}}{\$16,000 \text{ (total expenses)}} = 30\%
\]

Thus, of the $8,800 reimbursement, 30%, or $2,640, applies to meals and entertainment and 70%, or $6,160, applies to the other employee expenses. The deductions for AGI and from AGI are reported on Form 2106 in the following manner:
Transportation $6,400
Lodging and incidentals 4,600
Dues and subscriptions 200
Meals and entertainment ($2,800 + $2,000) $4,800
Total business expenses $11,200 $4,800
Less: reimbursement (deductible for AGI) (6,160) (2,640)
Unreimbursed portion $5,040 $2,160
Less: cutback adjustment (1,080)
Unreimbursed deduction from AGI $5,040 $1,080

The totals from Form 2106 are reported on Schedule A, then reduced by 2% of AGI:

Total unreimbursed employee expenses ($5,040 + $1,080) $6,120
Less: 2% of $100,000 AGI (2,000)
Total deduction from AGI $4,120

Example 43

48. As the employer did not identify what the reimbursement was for, Audry must allocate it between the items that are and are not subject to the cutback adjustment. The percentage applicable to the cutback portion is determined as follows:

\[
\frac{5,000(\text{meals} + \text{entertainment})}{15,000 \text{ (total expenses)}} = 33 \frac{1}{3}\%
\]

Thus, $1,500 (33 1/3% X $4,500) of the reimbursement applies to meals and entertainment while the balance of $3,000 ($4,500 – $1,500) relates to the other employee expenses.

Audry’s AGI is: $59,000 (salary) + $1,000 (interest income) + $600 (cash dividends) – $2,000 (long-term capital loss) = $58,600.

The deductions for and from AGI are determined as follows:

<table>
<thead>
<tr>
<th>Other than Meals and Entertainment</th>
<th>Meals and Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$5,500</td>
</tr>
<tr>
<td>Lodging</td>
<td>4,200</td>
</tr>
<tr>
<td>Professional dues and subscriptions</td>
<td>300</td>
</tr>
<tr>
<td>Meals and entertainment ($2,800 + $2,200)</td>
<td>$5,000</td>
</tr>
<tr>
<td>Total employee expenses</td>
<td>$10,000</td>
</tr>
<tr>
<td>Less reimbursement (treated as deduction for AGI)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Unreimbursed expenses</td>
<td>$7,000</td>
</tr>
<tr>
<td>Less cutback adjustment</td>
<td>(1,750)</td>
</tr>
<tr>
<td>Unreimbursed deductions from AGI</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

These items are reported on Schedule A and are reduced by 2% of AGI as follows:
Deductions: Employee and Self-Employed-Related Expenses

Total unreimbursed employee expenses ($7,000 + 1,750) $8,750
Less: 2% of $58,600 (1,172)
Total employee deductions from AGI allowed $7,578

Example 43

49. a. The Pitt’s AGI for 2003 is computed as follows:
   - Salaries ($52,000 + $48,000) $100,000
   - Contributions to traditional IRAs (6,000)
   - Short-term capital gain 3,000
   - School supplies (250)
   AGI $ 96,750

b. Itemized deductions subject to the 2%-of-AGI limitation are determined as follows:
   - Union dues (Note 1) $ 1,200
   - Safety clothing 500
   - Portion of school supplies not claimed as a deduction for AGI ($1,100 – $250) 850
   - Professional dues and subscriptions 400
   - Refreshments for school picnic (Note 2) 200
   - Correspondence study course (Note 3) 320
   $ 3,470
   Less: 2% X $96,750 (AGI) (1,935)
   Deductible portion $ 1,535
   Add: other itemized deductions 13,100
   Total deductions from AGI $14,635

Notes

(1) It is presumed that the Pitts are cash basis taxpayers. Thus, the union dues are deductible in the year paid.

(2) Eva’s participation in the cost of the school picnic is related to her job as a teacher.

(3) Considering the composition of Eva’s classes (i.e., sixth grade), the correspondence study course is job related, as it would improve her teaching effectiveness.

pp. 8-27, 8-28, and Example 44
CUMULATIVE PROBLEMS

50. Salary $60,000
    Expense allowance (Note 1) 15,000
    Bonus (Note 2) 10,000
    Interest income (Note 3) 800
    Contribution to traditional IRA (3,000)
    Adjusted gross income (AGI) (Note 4) $82,800
    Less:
        Personal exemptions (1 X $3,050) $ 3,050
        Itemized deductions (Notes 5 and 6) 29,074 32,124
        Taxable income $50,676

Notes

(1) Since Scott does not render any accounting to his employer, the expense allowance must be fully included in gross income. Consequently, all employee expenses are deductions from AGI.

(2) Presumably Scott uses the cash method of accounting for tax purposes. As such, the bonus is taxed when received (not when earned). The bonus for 2002 is taxed in 2003, and the bonus for 2003 will be taxed in 2004.

(3) The $400 of interest on the City of Tampa bonds is nontaxable.

(4) Scott has AGI in excess of $65,000 and could not claim $3,000 for qualified tuition under § 222. Moreover, the MBA expenses of $4,200 ($3,800 + $400) are classified as deductions from AGI. The gift of $22,000 Scott received from his parents is nontaxable. The sale of the camper results in a nondeductible personal loss of $2,000 [$5,000 (cost basis) – $3,000 (selling price)].

(5) Itemized deductions not subject to the 2% limitation are as follows:

    Property taxes $4,100
    Interest on home mortgage 3,000
    Charitable contributions 2,400
    Total $9,500

The campaign contribution of $200 is not deductible.
(6) Miscellaneous itemized deductions subject to the 2% limitation are listed below:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$2,700</td>
</tr>
<tr>
<td>Meals ($3,700 X 50%)</td>
<td>1,850</td>
</tr>
<tr>
<td>Lodging</td>
<td>3,900</td>
</tr>
<tr>
<td>Entertainment ($4,200 X 50%)</td>
<td>2,100</td>
</tr>
<tr>
<td>Business gifts (10 X $25)</td>
<td>250</td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td>300</td>
</tr>
<tr>
<td>Education expenses (Note 4)</td>
<td>4,200</td>
</tr>
<tr>
<td>Business use of personal auto:</td>
<td></td>
</tr>
<tr>
<td>Mileage (15,000 mi. X $0.36)</td>
<td>$5,400</td>
</tr>
<tr>
<td>Tolls</td>
<td>210</td>
</tr>
<tr>
<td>Parking</td>
<td>320</td>
</tr>
<tr>
<td>Total</td>
<td>$21,230</td>
</tr>
</tbody>
</table>

Less: 2% of $82,800 (AGI) (1,656)

Miscellaneous itemized deductions: $19,574

Business gifts are limited to $25 each. The fines of $310 resulting from traffic violations are not deductible. Meals and entertainment are subject to the 50% cutback adjustment.

51. Part 1

<table>
<thead>
<tr>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>George’s commissions</td>
<td>$48,900</td>
</tr>
<tr>
<td>Martha’s salary</td>
<td>62,500</td>
</tr>
<tr>
<td>Interest</td>
<td>1,300</td>
</tr>
<tr>
<td>Dividends</td>
<td>500</td>
</tr>
</tbody>
</table>

Gross income: $113,200

Deduction for AGI:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional IRA</td>
<td>$3,000</td>
</tr>
<tr>
<td>George’s business expenses (Note 4)</td>
<td>14,748</td>
</tr>
</tbody>
</table>

Adjusted gross income: $95,452

Itemized deductions:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>$1,500</td>
</tr>
<tr>
<td>Less: 7.5% of AGI (7.5% X $95,452)</td>
<td>(7,159)</td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>2,200</td>
</tr>
<tr>
<td>Home mortgage interest</td>
<td>9,000</td>
</tr>
<tr>
<td>Charitable contributions</td>
<td>2,100</td>
</tr>
<tr>
<td>Employee expenses and miscellaneous (Note 3)</td>
<td>(13,300)</td>
</tr>
<tr>
<td>Personal exemptions (2 X $3,000)</td>
<td>(6,000)</td>
</tr>
</tbody>
</table>

Taxable income: $76,152

Tax from Tax Table: $14,363

Less: Withholding and estimated tax ($8,000 + $8,250) (16,250)

Net tax payable (or refund due) for 2002: $1,887

Notes

(1) The $100,000 in life insurance proceeds are excludible. Chapter 4

(2) Martha’s commuter ticket costing $700 and the $100 gift to her superior are not deductible. pp. 8-5 and 8-20
(3) The miscellaneous itemized deductions subject to the 2% of AGI floor are calculated as follows:

Martha’s employee expenses:
- Taxi $126
- Meals and entertainment ($715 – 50% cutback) $358
- Total $484
- Tax return preparation 300
- Total $784
- Less: 2% of AGI (2% X $95,452) (1,909)
- Total deductible $-0-

Since Martha’s employee expenses are not deductible, neither Form 2106 nor Form 2106EZ need be filed.

(4) George’s business expenses include the following:

- Car expense (25,200 mi. X 36.5 cents) $9,198
- Travel ($2,700 + $950) 3,650
- Meals and entertainment [($1,300 + $2,500) – 50% cutback] 1,900
- Total deductible for AGI $14,748

George reports the information on his automobile in Part IV of Schedule C because he is using the automatic mileage method. If he were using the actual cost method, he would be required to file Form 4562 (Depreciation and Amortization) because an automobile is listed property.

See the tax return solution beginning on p. 8-20 of the Solutions Manual.

Part 2

a. The Jordan’s taxable income without the earnings on the inheritance is determined as follows:

2002 Taxable income $76,152
- Less: Increase in exemptions (2 X $50) (100)
2003 Taxable income $76,052

2003 Tax (rounded) $14,240

Only the first alternative would be included in 2003’s gross income. The $8,000 interest increases taxable income to $84,052. The increase in tax is $2,160 ($8,000 X 27%).

The cash flow would be as follows:

<table>
<thead>
<tr>
<th>First Alternative</th>
<th>Second Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$8,000</td>
</tr>
<tr>
<td>Less: Increase in tax</td>
<td>(2,160)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>$5,840</td>
</tr>
</tbody>
</table>
b. The 8% long-term U.S. bonds would produce a smaller after-tax cash flow of $660 ($5,840 – $6,500) than the 6.5% municipal bonds.

The other factor to be taken into account is the soundness of the investment. While the security of a U.S. bond is unmatched, the same cannot be said for municipal bonds. The security of such bonds depends upon the economic health of the governmental authority issuing the bonds.

c. Hoffman, Smith, and Willis, CPAs
5191 Natorp Boulevard
Mason, OH 45040

April 1, 2003

Mr. and Mrs. George Jordan
321 Oak Street
Lincoln, NV 89553

Dear Mr. and Mrs. Jordan:

You asked me to analyze the two investment alternatives for the $100,000 inheritance. These alternatives were:

1. Invest in 8% long-term U.S. Bonds.
2. Invest in 6.5% municipal bonds.

Although the U.S. bonds alternative provides a higher yield ($8,000 compared to $6,500), this does not consider the tax consequences. In your current bracket of 27%, $8,000 of interest income is reduced to $5,840 after taxes. Since the $6,500 you would receive from the municipal bonds is nontaxable, you would be better off by $660 ($6,500 – $5,840).

Please, however, consider the investment risk involved. In this regard, you must obtain information about the quality of the municipal bond involved.

Bonds also have an inflation-rate risk. You might want to consider diversifying your investment to include some stocks as an inflation hedge.

If I can be of further assistance, please call me.

Sincerely,

Agnes Wright, CPA
Partner
### U.S. Individual Income Tax Return 2002

**Form 1040**

#### General Information
- **Name:**
  - First Name: George
  - Last Name: Jordan
- **Social Security Number:** 582-09-4444
- **Spouse's Social Security Number:** 241-68-6642
- **Address:** 201 Oak Street, Lincoln, NV 89553
- **City, State, Zip Code:**
  - City: Lincoln
  - State: NV
  - Zip Code: 89553

#### Filing Status
- **You:** Single
- **Spouse:** Single

#### Exemptions
- **Number of dependents:** 2
- **Total number of exemptions claimed:** 2

#### Income
- **Wages, salaries, tips, etc.:** 7,625.00
- **Taxable interest:** 1,300.00
- **Tax-exempt interest:** 881,000.00
- **Ordinary dividends:** 500.00
- **Taxes refund, credits, or offsets of state and local income taxes:** 500.00
- **Alimony received:** 11,000.00
- **Business income or loss:** 34,152.00
- **Capital gains or loss:** 13,000.00
- **Other gains or loss:** 14,000.00
- **Pensions and annuities:** 15a
- **Taxable amount:** 15b
- **Rental real estate, royalties, partnerships, S corporations, trusts, etc.:** 17,000.00
- **Farm income or loss:** 18,000.00
- **Unemployment compensation:** 19,000.00
- **Social security benefits:** 20a
- **Taxable amount:** 20b
- **Other income:** 21,000.00

#### Adjusted Gross Income
- **Total income:** 99,452.00

#### Add, subtract, and total:
- **Total:** 99,452.00

---

*BAA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see instructions.*
Deductions: Employee and Self-Employed-Related Expenses

<table>
<thead>
<tr>
<th>Deductions: Employee and Self-Employed-Related Expenses</th>
<th>8-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>51. continued</td>
<td></td>
</tr>
</tbody>
</table>

| Form 1040 (2002) | 582-99-4444 | Page 2 |

**Tax and Credits**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Amount from line 35 (adjusted gross income)</td>
</tr>
<tr>
<td>37a</td>
<td>if married filing separately and your spouse itemizes deductions, enter the total here</td>
</tr>
<tr>
<td>37b</td>
<td>subtract line 38 from line 34</td>
</tr>
<tr>
<td>38</td>
<td>if line 38 is $100,000 or less, multiply $3,000 by the total number of exemptions claimed</td>
</tr>
<tr>
<td>39</td>
<td>if line 38 is over $100,000, see the worksheet in the instructions</td>
</tr>
<tr>
<td>40</td>
<td>Taxable income: Subtract line 40 from line 39</td>
</tr>
<tr>
<td>41</td>
<td>Alternative minimum tax (see instructions)</td>
</tr>
<tr>
<td>42</td>
<td>Add lines 42 and 43</td>
</tr>
<tr>
<td>43</td>
<td>Foreign tax credit, Attach Form 2555, if required</td>
</tr>
<tr>
<td>44</td>
<td>Retired, attach Schedule B or C, if required</td>
</tr>
<tr>
<td>45</td>
<td>Credit for child and dependent care expenses, Attach Form 2441</td>
</tr>
<tr>
<td>46</td>
<td>Social security and Medicare tax on Tips and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>47</td>
<td>Social security and Medicare tax on nonwages and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>48</td>
<td>Social security and Medicare tax on nonwages and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>49</td>
<td>Social security and Medicare tax on nonwages and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>50</td>
<td>Social security and Medicare tax on nonwages and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>51</td>
<td>Social security and Medicare tax on nonwages and other income not reported to employer, Attach Form 4952</td>
</tr>
<tr>
<td>52</td>
<td>Add lines 51 through 59. These are your total credits</td>
</tr>
<tr>
<td>53</td>
<td>Your total tax, attach Schedule A or C, if required</td>
</tr>
<tr>
<td>54</td>
<td>Add lines 54 through 59. These are your total credits</td>
</tr>
<tr>
<td>55</td>
<td>Subtract line 54 from line 39, if line 54 is more than line 44, enter 0</td>
</tr>
<tr>
<td>56</td>
<td>Self-employment tax, Attach Schedule SE, if required</td>
</tr>
<tr>
<td>57</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>58</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>59</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>60</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>61</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>62</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>63</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>64</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>65</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>66</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>67</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>68</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>69</td>
<td>Federal income tax withheld or paid from Form W-2 and 1099</td>
</tr>
<tr>
<td>70</td>
<td>Refund due, attach Schedule C, if required</td>
</tr>
<tr>
<td>71a</td>
<td>If line 70 is more than line 81, subtract line 61 from line 70. This is the amount you are entitled to receive</td>
</tr>
<tr>
<td>71b</td>
<td>If line 70 is more than line 81, subtract line 61 from line 70. This is the amount you are entitled to receive</td>
</tr>
<tr>
<td>72</td>
<td>Amount paid by employer or self-employed with account number or ID number (optional)</td>
</tr>
<tr>
<td>73</td>
<td>Amount you owe</td>
</tr>
<tr>
<td>74</td>
<td>Estimated tax payable (see instructions)</td>
</tr>
</tbody>
</table>

**Other Taxes**

| Form 1040 (2002) | 582-99-4444 | Page 2 |

**Payments**

| Form 1040 (2002) | 582-99-4444 | Page 2 |

**Refund**

| Form 1040 (2002) | 582-99-4444 | Page 2 |

**Amount Owed**

| Form 1040 (2002) | 582-99-4444 | Page 2 |

**Third Party Designee**

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**Sign Here**

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**Preparer's Use Only**

| Form 1040 (2002) | 582-99-4444 | Page 2 |

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Under penalties of perjury, I declare that I have examined this return and accompanying statements and schedules, 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.
<table>
<thead>
<tr>
<th>SCHEDULE A (Form 1040)</th>
<th>Itemized Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medical and Dental Expenses</strong></td>
<td>Caution. Do not include expenses reimbursed or paid by others.</td>
</tr>
<tr>
<td>1</td>
<td>Medical and dental expenses (see instructions)</td>
</tr>
<tr>
<td>2</td>
<td>Enter amount from Form 1040, line 36</td>
</tr>
<tr>
<td>3</td>
<td>Multiply line 2 by 7.5% (0.075)</td>
</tr>
<tr>
<td>4</td>
<td>Subtract line 3 from line 1. If line 3 is more than line 1, enter 0</td>
</tr>
<tr>
<td><strong>Taxes You Paid</strong></td>
<td>State and local income taxes.</td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Real estate taxes (see instructions)</td>
</tr>
<tr>
<td>7</td>
<td>Personal property taxes</td>
</tr>
<tr>
<td>8</td>
<td>Other taxes. List type and amount</td>
</tr>
<tr>
<td>9</td>
<td>Add lines 5 through 8</td>
</tr>
<tr>
<td><strong>Interest You Paid</strong></td>
<td>Home mortgage interest not reported to you on Form 1098.</td>
</tr>
<tr>
<td>10</td>
<td>You must attach Form 8824 if required.</td>
</tr>
<tr>
<td>11</td>
<td>Add lines 10 through 13</td>
</tr>
<tr>
<td><strong>Gifts to Charity</strong></td>
<td>Gifts by cash or check. If you made any gift of $250 or more, see instructions</td>
</tr>
<tr>
<td>15</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Other than by cash or check. If you made any gift of $250 or more, see instructions. You must attach Form 8824 if over $200</td>
</tr>
<tr>
<td>17</td>
<td>Carryover from prior year</td>
</tr>
<tr>
<td>18</td>
<td>Add lines 15 through 17</td>
</tr>
<tr>
<td><strong>Casualty and Theft Losses</strong></td>
<td>Casualty or theft loss(es). Attach Form 4845. (See instructions.)</td>
</tr>
<tr>
<td>19</td>
<td></td>
</tr>
<tr>
<td><strong>Job Expenses and Most Other Miscellaneous Deductions</strong></td>
<td>Unreimbursed employee expenses — job travel, union dues, job education, etc. You must attach Form 2106 or 2106-EZ.</td>
</tr>
<tr>
<td>20</td>
<td>Employee Business Expenses</td>
</tr>
<tr>
<td>21</td>
<td>Tax preparation fees</td>
</tr>
<tr>
<td>22</td>
<td>Other expenses — investment, safe deposit box, etc. List type and amount</td>
</tr>
<tr>
<td>23</td>
<td>Add lines 20 through 22</td>
</tr>
<tr>
<td>24</td>
<td>Enter amount from Form 1040, line 36</td>
</tr>
<tr>
<td>25</td>
<td>Multiply line 24 by 2% (0.02)</td>
</tr>
<tr>
<td>26</td>
<td>Subtract line 25 from line 24. If line 25 is more than line 24, enter 0</td>
</tr>
<tr>
<td><strong>Other Miscellaneous Deductions</strong></td>
<td>Other — from list in the instructions. List type and amount</td>
</tr>
<tr>
<td>27</td>
<td></td>
</tr>
<tr>
<td><strong>Total Itemized Deductions</strong></td>
<td>Is Form 1040, line 36, over $137,300 (over $89,850 if MFJ)?</td>
</tr>
<tr>
<td>28</td>
<td>No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 36.</td>
</tr>
<tr>
<td>29</td>
<td>Yes. Your deduction may be limited. See instructions for the amount to enter.</td>
</tr>
</tbody>
</table>

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.
### Schedule B—Interest and Ordinary Dividends

#### Part I Interest

<table>
<thead>
<tr>
<th>1</th>
<th>List name of payee. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address. Credit Union</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,300</td>
<td>00</td>
</tr>
</tbody>
</table>

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

2 Add the amounts on line 1.

3 Exclude interest on series EE and I U.S. savings bonds issued after 1989 from Form 8815, line 14. You must attach Form 8815.

4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 6a.

#### Part II Ordinary Dividends

<table>
<thead>
<tr>
<th>5</th>
<th>List name of payee. Include only ordinary dividends. If you received any capital gain distributions, see the instructions for Form 1040, line 13. General Motors</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>500</td>
<td>00</td>
</tr>
</tbody>
</table>

**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.

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

#### Part III Foreign Accounts and Trusts

- **7a** At any time during 2002, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1.
- **8** During 2002, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If “Yes,” you may have to file Form 3520. See page B-2.

For Paperwork Reduction Act Notice, see Form 1040 instructions.
51. continued

<table>
<thead>
<tr>
<th>SCHEDULE C (Form 1040)</th>
<th>Profit or Loss from Business (Sole Proprietorship)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of proprietor: GEORGE M JORDAN SN: 582-99-4444</td>
<td></td>
</tr>
<tr>
<td>A. Principal business or profession, including product or service (see instructions)</td>
<td>SALESMAN</td>
</tr>
<tr>
<td>C. Business name: No separate business name, leave blank</td>
<td></td>
</tr>
<tr>
<td>E. Business address (including suite or room no.): 321 OAK STREET LINCOLN, NV 85553</td>
<td></td>
</tr>
<tr>
<td>F. Accounting method:</td>
<td>(1) Cash (2) Accrual (3) Other (specify)</td>
</tr>
<tr>
<td>G. Did you materially participate in the operation of this business during 2002? [ ] Yes [ ] No</td>
<td></td>
</tr>
</tbody>
</table>

**Part I Income**

- 1. Gross receipts or sales. **Caution:** If the income was reported to you on Form W-2 and the **Statutory employee:** Box on that form was checked, see the instructions and check here. 48,900.
- 2. Returns and allowances 2
- 3. Subtract line 2 from line 1. 48,900.
- 4. Cost of goods sold (from line 42 on page 2). 4
- 5. Gross profit. Subtract line 4 from line 3. 48,900.
- 6. Other income, including Federal and state gasoline or fuel tax credit or refund 6

**Part II Expenses.** Enter expenses for business use of your home only on line 30.

- 8. Advertising 8
- 9. Bad debts from sales or services (see instructions) 9
- 10. Car and truck expenses (see instructions) 9,198.
- 11. Commissions and fees 11
- 12. Depletion 12
- 13. Depreciation and section 179 expense deduction (not included in Part III) (see instructions) 13
- 14. Employee benefit programs (other than on line 19) 14
- 15. Insurance (other than health) 15
- 16. Interest 16
- 17. Legal and professional services 17
- 18. Office expenses 18
- 19. Pension and profit-sharing plans 19
- 20. Rent or lease (see instructions): a. Vehicles, machinery, and equipment 20a
- 21. Repairs and maintenance 21
- 22. Supplies (not included in Part III) 22
- 23. Taxes and licenses 23
- 24. Travel, meals, and entertainment: a. Travel 24a
- 25. Utilities 25
- 26. Wages (less employment credits) 26
- 27. Other expenses (from line 48 on page 2) 27
- 28. Total expenses before expenses for business use of home. Add lines 8 through 27 in columns. 14,748.
- 29. Tentative profit (loss). Subtract line 28 from line 7. 34,152.
- 30. Expenses for business use of your home. Attach Form 8829. 30
- 32. If you have a loss, check the box that describes your investment in this activity (see instructions): a. If you checked 32a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employee, see instructions). Estates and trusts, enter on Form 1041, line 3. b. If you checked 32b, you must attach Form 6198. 32a
- 32b

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.
### Part III Cost of Goods Sold (see instructions)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>Method(s) used to value closing inventory: a) Cost, b) Lower of cost or market, c) Other (attach explanation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If &quot;Yes,&quot; attach explanation</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>35</td>
<td>Inventory at beginning of year. If different from last year's closing inventory, attach explanation</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Purchases less cost of items withdrawn for personal use</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Cost of labor. Do not include any amounts paid to yourself</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Materials and supplies</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Other costs</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Add lines 35 through 39</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Inventory at end of year</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4</td>
<td>42</td>
<td></td>
</tr>
</tbody>
</table>

### Part IV Information on Your Vehicle

- Complete this part only if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>When did you place your vehicle in service for business purposes? (month; day, year)</td>
<td>01/03/2000</td>
</tr>
<tr>
<td>Of the total number of miles you drove your vehicle during 2002, enter the number of miles you used your vehicle for:</td>
<td></td>
</tr>
<tr>
<td>a) Business</td>
<td>26,200</td>
</tr>
<tr>
<td>b) Commuting</td>
<td>11,800</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Do you (or your spouse) have another vehicle available for personal use?</td>
<td>Yes</td>
</tr>
<tr>
<td>Was your vehicle available for personal use during off-duty hours?</td>
<td>Yes</td>
</tr>
<tr>
<td>b) If &quot;Yes,&quot; is the evidence written?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Part V Other Expenses

List below business expenses not included on lines 8-26 or line 30.

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# Employee Business Expenses

**Part I: Employee Business Expenses and Reimbursements**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work.</td>
<td>2</td>
<td>126</td>
</tr>
<tr>
<td>3</td>
<td>Travel expense while away from home overnight, including lodging, airline, car rental, etc. Do not include meals and entertainment</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Business expenses not included on lines 1 through 3. Do not include meals and entertainment</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Meals and entertainment expenses (see instructions)</td>
<td>5</td>
<td>715</td>
</tr>
<tr>
<td>6</td>
<td><strong>Total expenses.</strong> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5.</td>
<td>6</td>
<td>126</td>
</tr>
</tbody>
</table>

**Note:** If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

---

**Step 2: Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code &quot;L&quot; in box 12 of your Form W-2 (see instructions)</td>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>

---

**Step 3: Figure Expenses To Deduct on Schedule A (Form 1040)**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7.</td>
<td>8</td>
<td>126</td>
</tr>
</tbody>
</table>

**Note:** If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2126 to your return.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses by 65% (.65) instead of 50%. For details, see instructions.)</td>
<td>9</td>
<td>126</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 20. (Fee-based state or local government officials, qualified performing artists, and individuals with disabilities: See the instructions for special rules on where to enter the total.)</td>
<td>10</td>
<td>484</td>
</tr>
</tbody>
</table>