# CHAPTER 9

**DEDUCTIONS AND LOSSES:**

**CERTAIN ITEMIZED DEDUCTIONS**

**SOLUTIONS TO PROBLEM MATERIALS**

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*The solution to this problem is available on a transparency master.*
Deductions and Losses: Certain Itemized Deductions

CHECK FIGURES

24. $8,950.  
25. $14,900.  
26. $14,250.  
27. $7,000 for AGI; $0 from AGI.  
28. $39,370.  
30.b. $6,000 for AGI; $0 from AGI.  
31. $297,780.  
32.a. $9,100.  
32.b. Include in gross income to extent of tax benefit received.  
32.c. Include in gross income to extent of tax benefit received.  
32.d. Exclude.  
34.a. Current deduction $20,400.  
34.b. Carryover $9,600.  
35. $100,000.  
36.a. $6,000 in 2004.  
36.b. $6,000 in 2004.  
37.a. $3,200.  
37.b. $2,880.  
38.a. $15,000.  
38.b. $27,000.  
38.c. $10,500.  
39. No.  
40.a. $210,000.  
40.b. Carryover for 5 years as 30% property.  
41.a. $118,000.  
41.b. $88,000.  
42.a. $660.  
42.b. No.  
44. Tax savings filing separately $875.  
45. $58,885.  
46. $27,700 before; $21,685 after.  
47.a. $30,466.  
47.b. $197,562.  
48. $18,385.  
49. Refund due for 2002, $1,759.  
DISCUSSION QUESTIONS

1. a. Yes. Fifty percent of the business entertainment expenses, in this situation, are deductible for AGI, which is the base for determining the nondeductible portion of the medical expenses (i.e., 7.5% X AGI). A lower AGI may result in a larger medical expense deduction. p. 9-3

b. Yes. Any unreimbursed entertainment expenses incurred by an employee would have no effect on the determination of adjusted gross income because the amounts are deductible from AGI. Therefore, the expenses would not change the base (AGI) for determining the allowable medical expenses. See Chapter 8 for a discussion of entertainment expenses.

2. Tanesha may not include as medical expenses the following items that were incurred for the general improvement of her health:
   - $840 dues at a health club incurred for the purpose of improving her general physical condition.
   - $240 for multiple vitamins and antioxidant vitamins.

   She may include as medical expenses the $500 cost of the smoking cessation program, but may not include the $240 cost of the nonprescription nicotine gum. While the cost of nonprescription drugs is generally not deductible, the $600 spent on insulin is deductible. Funeral expenses of $7,200 do not qualify as medical expenses.

   pp. 9-3 and 9-4

3. Cosmetic surgery is necessary (and therefore deductible) when it ameliorates (1) a deformity arising from a congenital abnormality, (2) a personal injury, or (3) a disfiguring disease. Expenses incurred in connection with the restorative surgery (required as a result of the accident) are deductible because the surgery was necessary. Amounts paid for the unnecessary cosmetic surgery (reshaping the chin) are not deductible as a medical expense. Examples 2 and 3

4. The cost of care in a nursing home may be included in medical expenses if the primary reason for being in the home is to get medical care. Apparently the primary reason Jerry’s parents are in the nursing home is to get medical care, while medical care is not the primary reason that Ernie’s parents are in the nursing home. p. 9-5

5. The full cost of certain home-related capital expenditures incurred to enable a physically handicapped individual to live independently and productively qualifies as a medical expense. Qualifying costs include expenditures for constructing entrance and exit ramps to the residence, widening hallways and doorways to accommodate wheelchairs, installing support bars and railings in bathrooms and other rooms, and adjusting electrical outlets and fixtures. These expenditures are subject to the 7.5% floor only, and the increase in the home’s value is deemed to be zero. So even though the improvements increased the value of Harmon’s personal residence by $2,000, the entire $14,000 of the expenditure qualifies as a medical expense deduction (subject to the 7.5% floor). pp. 9-5, 9-6, and Example 6

6. Bob may be able to include the payments related to Harriett’s injury with his own medical expenses. For divorced parents with children, the noncustodial parent may claim any medical expenses he or she pays even though the custodial parent claims the children
as dependents. This rule applies if the dependency exemption could have been shifted to the noncustodial parent by the custodial parent’s waiver (see Chapter 2). p. 9-7

7. David, who is self-employed, may deduct 100% of the premium of $7,500 as a deduction for AGI. Joan, who is an employee, may include the premiums of $8,000 she paid in computing her itemized deduction for medical expenses (subject to the 7.5% floor). Example 10

8. Arturo, a calendar year taxpayer, paid $16,000 in medical expenses in 2003. Even if he expects $12,000 of these expenses to be reimbursed by an insurance company in 2004, he can include all $16,000 of the expenses in determining his medical expense deduction for 2003. He is not required to consider the potential reimbursement in computing his medical expense deduction for 2003.

Casualty losses must be reduced if there is an expectation of reimbursement. Therefore, Arturo’s starting point in computing the casualty loss deduction is $6,000 ($20,000 loss – $14,000 expected reimbursement). Further reductions are required for the $100 floor and the 10% of AGI floor.

p. 9-9

9. a. An MSA plan includes two components: a high-deductible medical insurance policy and a Medical Savings Account. The high-deductible policy covers medical expenses beyond the deductible amount, while expenses not covered by the high deductible policy can be paid with funds withdrawn from the MSA. The M+CMSA provisions allow taxpayers who are eligible for Medicare and have a high-deductible health plan to create an M+C MSA. Deposits are made on behalf of the taxpayer by the Medicare program.

b. Individuals whose employers contribute to MSAs may exclude the contributions from gross income. Individuals who contribute to MSAs may deduct the contributions as deductions for AGI. The deduction for contributions to an MSA account is limited to 65% of the policy deductible for individuals (75% for families).

Earnings on MSAs are not included in gross income of the current year. MSA distributions that are used to pay for medical expenses not covered by a high-deductible policy are excluded from gross income. However, distributions used for purposes other than the payment of medical expenses are included in gross income and are subject to an additional 15% penalty if made before age 65, death, or disability.

Deposits made to an M+C MSA on behalf of the taxpayer by the Medicare program are not taxable to the individual. Amounts that are withdrawn from the M+C MSA by the taxpayer are not taxable if used to pay qualifying medical expenses.

pp. 9-9 and 9-10

10. Ahmad should be concerned with the following tax issues:

- Is the value of the certificate includible in gross income in 2002, even though it appeared at that time that Ahmad would not have any need for the operation?
• If Ahmad uses the certificate for his daughter, is the prize includible in gross income in 2003?

• If Ahmad pays for the prescription glasses for his daughter, can he take a medical expense deduction?

• If Ahmad uses the certificate for an operation for his daughter, can he take a medical expense deduction? If so, what is his basis in the certificate and what is the amount of his medical expense deduction?

Chapter 3 and pp. 9-2 to 9-7

11. Peter obtains a deduction for the $3,474 ($5,262 – $1,788) of real estate taxes attributable to the period ending on the day before the sale. The $1,788 allocated to Andrea (but paid by Peter) reduces Peter’s amount realized from the sale. Andrea is required to reduce her adjusted basis by a corresponding amount, and has a deduction (d from) for the $1,788 of real estate taxes allocated to her. Example 19

12. Julia can deduct mortgage interest on her principal residence and one of the two other residences. She should choose the one that will result in the highest interest deduction. Her deduction is limited to interest on up to (1) $1,000,000 of acquisition indebtedness, and (2) $100,000 of home equity indebtedness. Julia should consider consolidating the three mortgages into two if possible. p. 9-17

13. Home equity loans utilize a qualified residence of the taxpayer as security. The proceeds from these loans can be used for personal purposes. By making use of home equity loans, therefore, what would have been nondeductible consumer interest becomes deductible qualified residence interest. Ed apparently obtained a home equity loan, and Jack did not. p. 9-17 and Example 24

14. Points paid by a seller are treated as an adjustment to the selling price of the residence. The buyer is treated as having used cash to pay the points that were paid by the seller. The buyer may deduct the points if several conditions are met. These conditions are specified in Rev. Proc. 94-27, which is cited in footnote 27. p. 9-18

15. Because of the irregular patterns of interest payments, it does not appear that this is a bona fide loan. Interest paid was $3,200 in 2001, $0 in 2002, and $9,000 in 2003. Additionally, the interest would not represent deductible qualified residence interest unless the loan was secured by the condominium. pp. 9-16 to 9-18

16. Contributions are deductible only if made to a qualified charitable organization. The family would not qualify as a charitable organization, so Betty’s contribution will not be deductible. The church probably would be a qualified charitable organization. If so, Jack’s contribution will be deductible. pp. 9-21 and 9-22

17. Mike will be able to deduct a portion of the cost of the tickets. To the extent that tangible benefits are received, taxpayers are not allowed to deduct the cost of payments to charitable organizations. Mike will be required to reduce his deduction to the extent of the value of the dinner and the dance. This information will need to be provided by the public library. Example 29

18. Nancy should consider the following tax issues if she acquires the notebook computer under the conditions specified:
• Can she take a charitable contribution deduction for the $2,000 donation to the university? To the extent the taxpayer receives a benefit from a contribution, the charitable contribution deduction is not allowed. Nancy would be the sole user of the computer and would receive a personal benefit from the contribution.

• Will she be allowed to take a depreciation deduction for the business use of the computer? If Nancy contributes $2,000 to the university, the university owns the computer. Therefore, she is not entitled to a depreciation deduction.

• Is Nancy required to report income as a result of her personal use of the computer? Nancy should report income to the extent of the value of the computer usage for personal use. It does not appear that the de minimis fringe benefit rule would allow an exclusion from gross income.

• What could Nancy do to avoid the negative tax consequences discussed above? Nancy could purchase a computer for $2,000. She could take a depreciation deduction for the business use (limited by the listed property rules), and would not be required to report income from personal use of the computer.

pp. 9-19 to 9-22

19. Jean cannot deduct the lost wages of $700 for her contributed services. However, she can deduct out-of-pocket costs of $1,850 ($300 for transportation, $1,300 for lodging, and $250 for meals). p. 9-21

20. The following issues relate to the assets Zina sold:

• Should the $500 sales receipts be reported on her tax return?
• What was her basis for the assets she sold?
• Did she have a gain or loss on the sale?
• Were the assets used for personal use, trade or business, or production of income?
• Were the assets capital assets or ordinary income assets?
• If she sold capital assets, were they held short-term or long-term?

The following issues relate to the assets Zina donated:

• Does she plan to itemize deductions?
• Which organizations were recipients of the donated items?
• Were the organizations qualified charitable organizations?
• What types of assets did she donate, ordinary income assets or capital gain assets?
• What was her basis for the assets she donated?
• What was the fair market value of the assets she donated?
• How did she determine the fair market value of the items?
21. Edward has created a rather complex set of tax questions with his decision to return the check to the governor. The primary issues are listed below:

- Is Edward required to treat the $290 as if he constructively received it, or may he ignore having received the check?

- If the constructive receipt rule applies, is Edward required to report the rebate as income in 2003?

- The answer would depend on whether Edward had itemized deductions in 2002. If so, he would be required to report income in 2003 under the tax benefit rule. If not, he would not be required to report income.

- Is Edward entitled to a charitable contribution deduction of $290?

- If the constructive receipt rule applies, and if Edward were required to report income in 2003 under the tax benefit rule, he would be entitled to a charitable contribution deduction in 2004, the year he returned the check.

- If the constructive receipt rule does not apply, Edward would not be required to report income in 2003, and would not be entitled to a charitable contribution deduction in 2004.

p. 9-22

22. The following tax issues relate to prizes won in the Skins Game:

- Are the prizes won (monetary and nonmonetary) included in gross income?

- Should the players report only 80% of the total amount of money winnings as income and claim no deduction for the amount that goes to charity?

- Should the players report the total amount of money winnings as income and deduct the 20% that goes to charity as a charitable contribution? If so, is the deduction a business expense or an itemized deduction?

- What amount should be reported as income for the automobile won by the leading money winner—the sticker price, the average selling price, or some other amount?

- If the average selling price is the appropriate amount to report as income, how should it be determined?

Chapter 3 and pp. 9-19 to 9-23

The following questions relate to material covered in later chapters:

- If the leading money winner already has an automobile and doesn’t need the new one, what will be the tax result when he sells the automobile he won as a prize? What is his basis in the automobile won as a prize? What kind of gain (loss) would result? If a loss results, is it deductible? Chapters 12 and 13
Deductions and Losses: Certain Itemized Deductions

- If the leading money winner keeps the automobile he won as a prize and sells the automobile he had been using previously, what will be the tax result when he sells his old automobile? What kind of gain (loss) would result? If a loss results, is it deductible? Chapters 12 and 13

- What will be the tax result if the leading money winner gives the new automobile to a friend or relative? Chapter 12

- What will be the tax result if the leading money winner gives the new automobile to a charity? Chapter 12

- What will be the tax result if the leading money winner gives the new automobile to his caddy, who is an employee? Chapter 12

23. Ownership of the ball has been determined by the court. Both parties will be required to report income when the ball is sold. The basis of the ball will be zero and the gain will be to capital gain to each party.

Neither party was legal owner of the ball until the judge decided they were equal owners. Therefore, the holding period begins on the date of the decision (December 18, 2002). The capital gain will be short term if the owners hold the ball for a year or less before selling it. If the owners hold the ball for more than a year, the capital gain will be long term. If the owners hold the ball for more than a year, it is possible that the home run record could be broken in the future and the value of the ball could decline precipitously.

In any event, both parties will incur legal expenses related to the lawsuit. The deductibility of legal expenses is discussed in Chapter 5.

PROBLEMS

24. Emma’s medical expense deduction is $8,950, determined as follows:

| Medical insurance premiums | $3,700 |
| Doctor and dentist bills for Bob and April | $6,800 |
| Doctor and dentist bills for Emma | $5,200 |
| Prescribed medicines for Emma | $400 |
| Nonprescribed insulin for Emma | $350 |
| **Total medical expenses** | **$16,450** |
| **Less:** 7.5% of $100,000 (AGI) | *(7,500)* |
| **Deductible portion of medial expenses** | **$8,950** |

Although Bob and April cannot be claimed as Emma’s dependents, they could have been had they not filed a joint return. Therefore, they qualify for the medical expense deduction. Insulin is an exception to the rule that nonprescribed drugs do not qualify as medical expenses. The insurance recovery was not received until 2004. Therefore, it has no effect on the medical expense deduction for 2003.

pp. 9-2 to 9-9 and Exhibit 9-1

25. The amount that qualifies for the medical expense deduction is $14,900 ($11,000 + $2,200 + $1,700). The room and board for Lakeside qualifies because the move was motivated by Lawrence’s need for medical care. The cable fee is a personal expense. p. 9-4 and Examples 4 and 40
26. Only $13,500 qualifies since $2,000 of the $15,500 cost of the elevator increased the value of Jung’s residence. The total medical expense is $14,250 ($13,500 + $750 additional operating costs). The $500 appraisal fee is deductible as a miscellaneous itemized deduction, but not as a medical expense. Example 6

27. Self-employed persons can deduct 100% of their medical insurance premiums as a deduction for AGI in 2003. Thus, Jean may deduct $7,000 as a deduction for AGI. p. 9-8

28. The charges for tuition, room, and board paid to Red River Academy qualify because Beth receives specialized psychiatric treatment. Example 5

Although Ed does not qualify as Susan’s dependent, he qualifies as a dependent for medical expense purposes. All of the costs paid for Ed at Heartland Nursing Home are deductible because the primary reason he is there is to receive medical care. p. 9-4 and Exhibit 9-1

Prescription drugs and insulin are deductible, but nonprescription drugs are not.

Only $4,300 of the filtration system qualifies since $2,200 of the $6,500 cost increased the value of Susan’s residence. The $700 increase in utility bills also is a medical expense. The appraisal fee of $360 is an itemized deduction, but is not deductible as a medical expense. Example 6

Deductible medical expenses are summarized below:

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<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Surgery for Beth</td>
<td>$4,200</td>
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<td>Red River Academy charges for Beth:</td>
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<tr>
<td>Tuition</td>
<td>5,600</td>
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<tr>
<td>Room, board, and other expenses</td>
<td>4,800</td>
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<td>Psychiatric treatment</td>
<td>5,100</td>
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<td>Doctor bills for Ed</td>
<td>2,200</td>
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<td>Prescription drugs for Susan, Beth, and Ed</td>
<td>780</td>
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<td>Insulin for Ed</td>
<td>540</td>
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<td>Charges at Heartland Nursing Home for Ed:</td>
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<td>Medical care</td>
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<td>Lodging</td>
<td>3,700</td>
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<td>Meals</td>
<td>2,650</td>
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<td>Deductible cost for filtration system ($6,500 – $2,200)</td>
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<td>Increase in utility bills due to the system</td>
<td>700</td>
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<td>Total medical expenses (prior to the 7.5% floor)</td>
<td>$39,370</td>
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29. The following tax issues are suggested by the facts presented:

- Can Rebecca claim Susan as a dependent?
- Can Rebecca take a medical expense deduction for the remodeling expenditures?
- Can Rebecca take a medical expense deduction for the swimming pool expenditures?
- Can Rebecca take a medical expense deduction for the cost of Susan’s operation?
- Can Susan take a medical expense deduction for the specially equipped van and the costs of operating it?
• Can Rebecca take a medical expense deduction for the traveling expenses (transportation, highway tolls, meals, and lodging)?

• Can Rebecca deduct the medical expenses incurred for Susan if Susan does not qualify as her dependent?

The following questions should be asked to resolve some of the issues listed above:

• Did Rebecca provide more than half of Susan’s support? This will determine whether Rebecca can deduct Susan’s medical expenses. In addition, Rebecca may be able to claim head of household filing status if Susan lived with her for more than half the year.

• Are the remodeling expenses necessary in order to enable Susan to live independently? If so, the expenses are included in medical expenses subject to the 7.5% floor.

• Is the travel to Denver necessary in order for Susan to receive proper medical treatment? If it is, the travel expenses are included in medical expenses subject to the 7.5% floor.

• How much expense did Rebecca incur for lodging? The deduction is limited to $50 per night per person.

### 30. Deductible Contributions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amount of the deductible</td>
<td>$3,600</td>
</tr>
<tr>
<td>Maximum annual contribution</td>
<td>$2,700</td>
</tr>
<tr>
<td>(75% of $3,600 deductible)</td>
<td></td>
</tr>
<tr>
<td>Maximum monthly contribution (1/12 of $2,700)</td>
<td>$225</td>
</tr>
</tbody>
</table>

b. Because Felicia is self-employed, she can deduct $3,300 ($275 per month X 12 months) of the amount paid for the high-deductible policy as a deduction for AGI (refer to Example 10). In addition, she may deduct the $2,700 paid to the MSA as a deduction for AGI. Thus, Felicia may deduct $6,000 ($3,300 + $2,700) for AGI.

### 31. Rick’s Basis

Rick’s basis in the residence is $297,780 [$300,000 (purchase price) – $2,220 (property taxes allocated to Rick but paid by Alicia)]. pp. 9-12, 9-13, and Example 19

### 32. General Discussion

A cash basis taxpayer deducts state income taxes in the year paid or withheld. Any refund of state income taxes must be reported as income in the year received to the extent the taxpayer received a tax benefit from deducting the taxes in a prior year. The income must be reported whether the taxpayer receives a cash refund or has the refund applied against taxes.

a. $7,400 withheld in 2003 + $700 estimated tax payment in 2003 + $1,000 paid in 2003 for 2002 = $9,100.

b. The $1,800 will be included in 2004 gross income to the extent the taxpayer derived a tax benefit from itemizing in 2003.
c. The $1,800 will be included in 2004 gross income to the extent the taxpayer derived a tax benefit from itemizing in 2003, even if she elects to have the refund applied toward her 2004 state income tax.

d. If Andrea did not itemize deductions in 2003, she is not required to report any of the $1,800 refund as income in 2004.

p. 9-14

33. Willis, Hoffman, Maloney, and Raabe, CPAs
5191 Natorp Boulevard
Mason, OH 45040

February 20, 2004

Ms. Irina Gray
432 Clinton Circle
Rochester, NY 14604

Dear Ms. Gray:

In our recent meeting, you asked me to determine the amount of your investment interest deduction for 2003. The amount of your deduction will depend on choices that you make with regard to the treatment of the $25,500 net capital gain on the sale of securities.

The deduction for investment interest is limited to the amount of investment income that you report. If you choose not to treat the net capital gain as investment income for purposes of computing the investment interest expense limitation, your deduction will be $25,000 ($14,000 interest + $11,000 dividends).

However, if you elect to treat the net capital gain as investment income for purposes of computing the investment interest expense limitation, your deduction will be $50,500 ($14,000 interest + $11,000 dividends + $25,500 net capital gain).

If you elect to include the capital gains as investment income, your $25,500 net capital gain will not qualify for beneficial tax rate treatment. Therefore, you must decide between the tax benefit of an additional deduction of $25,500 versus the benefit of the reduced rates applicable to net capital gain.

Due to the complexities of the capital gain provisions, I will need to meet with you again to obtain additional information in order to advise you about the election that is available. Please call me at (510) 555-1234 to schedule an appointment. Thank you for consulting my firm on this matter. We look forward to serving you in the future.

Sincerely,

Julie Morgan, CPA
Partner

pp. 9-14 and 9-15
34. a. Serena’s investment interest deduction is limited to net investment income, which is computed as follows:

<table>
<thead>
<tr>
<th>Income from investments</th>
<th>$21,150</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Investment expenses*</td>
<td>(750)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>$20,400</td>
</tr>
</tbody>
</table>

*Because Serena has no other miscellaneous itemized deductions, the deductible investment expenses are the smaller of (1) $2,250, the amount of investment expenses included in the total of miscellaneous itemized deductions subject to the 2% of AGI floor, or (2) $750, the amount of miscellaneous expenses deductible after the 2% of AGI floor is applied [$2,250 – $1,500 (2% of $75,000)].

Serena’s investment interest expense deduction in 2003 would be limited to $20,400, the amount of net investment income. The balance of $9,600 would be disallowed in 2003.

<table>
<thead>
<tr>
<th>Total investment interest expense</th>
<th>$30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Net investment income</td>
<td>(20,400)</td>
</tr>
<tr>
<td>Investment interest disallowed in 2003</td>
<td>$ 9,600</td>
</tr>
</tbody>
</table>

b. The $9,600 of investment interest disallowed may be carried over and becomes investment interest expense in the subsequent year subject to the net investment income limitation in 2004. Serena could increase her investment interest deduction by electing to treat the LTCG of $8,250 as investment income. The amount so elected would not be available for beneficial alternative tax rate treatment for net capital gain, however.

pp. 9-14 and 9-15

35. Interest is deductible only on the portion of a home equity loan that does not exceed the lesser of:

- The fair market value of the residence, reduced by the acquisition indebtedness ($220,000 FMV – $70,000 acquisition indebtedness = $150,000).
- $100,000 ($50,000 for married persons filing separate returns).

Huseyin can deduct all of the interest on the first mortgage since it is acquisition indebtedness. Of the $110,000 home equity loan, interest on $100,000 is deductible as home equity interest. Examples 24 and 25

36. a. Robin Corporation can deduct interest expense of $6,000 in 2004. No interest deduction is permitted in 2003. Under § 267, Ron and Tom are regarded as related to the corporation. Consequently, the deductibility must await actual payment in 2004.

b. All of the interest of $6,000 is included in the gross income of Ron and Tom in 2004. Because they use the cash method of accounting, income is not taxed until received in 2004.

p. 9-18 and Chapter 5
37. Generally, when a donor derives a tangible benefit from a contribution, he or she cannot deduct the value of the benefit. An exception to this benefit rule provides for the deduction of 80% of the amount paid for the right to purchase athletic tickets from colleges and universities. Example 30

a. Under the exception to the benefit rule, Nadia is allowed a $3,200 (80% of $4,000) charitable contribution deduction for the taxable year. None of the $400 paid for game tickets can be deducted.

b. Nadia cannot deduct the $400 portion of the $4,000 that applies to the tickets ($100 X 4). She is allowed a charitable contribution deduction of $2,880, which is equal to 80% of the $3,600 remainder.

38. General discussion. The deduction for a contribution of long-term capital gain property is based on fair market value, while the deduction for a contribution of ordinary income property is equal to the lesser of the adjusted basis or fair market value.

a. Because Kristin did not hold the stock for the long-term holding period, it is short-term capital gain property that is subject to the rules for ordinary income property. Therefore, her deduction is limited to $15,000.

b. Kristin held the stock for the long-term holding period, so it is long-term capital gain property. Therefore, her deduction is equal to the fair market value of the stock of $27,000.

c. The deduction for a contribution of loss property (FMV < adjusted basis) is limited to the fair market value. Therefore, Kristin’s deduction is $10,500. Example 32 and related discussion

39. Willis, Hoffman, Maloney, and Raabe, CPAs
5191 Natcorp Boulevard
Mason, OH 45040

December 5, 2003

Mr. Pedro Valdez
1289 Greenway Avenue
Foster City, CA 94404

Dear Mr. Valdez:

I have evaluated the two alternatives for your charitable contribution deduction. Your potential deduction is $130,000, the fair market value of the painting. It is not reduced by the unrealized appreciation since the painting was assumed to be put to a related use by the museum and the holding period is long-term. Your 2003 charitable contribution deduction is limited to $75,000 (30% X $250,000 AGI) if you do not make the reduced deduction election. The remaining $55,000 ($130,000 FMV – $75,000 deduction) can be carried forward for five years.

If you make the reduced deduction election, you can deduct $90,000 (adjusted basis of the painting) in 2003, because the amount is less than the maximum potential deduction of $125,000 (50% X $250,000 AGI). However, if you make the election, you must forgo
Deductions and Losses: Certain Itemized Deductions

40. a. No reduction for the appreciation on the Goshawk, Inc. stock is necessary because, if sold, it would yield a long-term capital gain. Thus, Alvin's potential charitable deduction is $250,000 [$110,000 (cash) + $140,000 (fair market value of Goshawk, Inc. stock)], but his allowable contribution deduction for the year is limited to $210,000 (50% of $420,000 AGI).

Although the 30% of AGI limitation applies to long-term capital gain property, which would result in a current deduction for the Goshawk, Inc. stock of $126,000 (30% of $420,000 AGI), the overall 50% of AGI limitation applies to limit the deduction to $100,000. When the contributions for the tax year involve both 50% property (the cash of $110,000 in this case) and 30% property (the Goshawk, Inc. stock), the allowable deduction comes first from the 50% property. Therefore, Alvin’s allowable deduction of $210,000 for the current year consists of:

- Cash $110,000
- Goshawk stock [overall limitation of $210,000 (50% of AGI) – $110,000 (cash)] $100,000

$210,000

b. The unused portion of the Goshawk stock contribution of $40,000 [$140,000 (fair market value) – $100,000 (portion used)] may be carried over for five years. The carryover continues to be classified as 30% property in the carryover years.

If Alvin plans his charitable deductions wisely, sooner or later he will be able to deduct the full $140,000 fair market value of the stock.

41. General discussion. The stock is appreciated long-term capital gain property. The general rule limits the deduction for the contribution of such property to 30% of AGI. However, under the reduced deduction election, a taxpayer may choose to forgo a deduction of the appreciation on capital gain property. This enables the taxpayer to move from the 30% limitation to a 50% limitation.
a. Russell can deduct a total of $118,000, the fair market value of the stock. The deduction for 2003 is limited to $60,000 (30% of $200,000 AGI). The remaining $58,000 can be carried forward and deducted in the future, subject to the same percentage limitations.

b. If Russell makes the reduced deduction election, he can deduct $88,000 in 2003, but he will forgo a deduction for the $30,000 appreciation ($118,000 FMV – $88,000 adjusted basis).

c. Although the reduced deduction election appears attractive, it should be considered carefully. The election sacrifices a deduction for the appreciation on long-term capital gain property that might eventually be allowed. Russell should do a time value analysis to compare the value of a deduction of $88,000 in 2003 versus the value of a $60,000 deduction in 2003 plus $58,000 of deductions to be carried over to future years.

d. If Russell dies in December 2003, his executor should make the reduced deduction election, which would yield a charitable contribution deduction of $88,000. If the election is not made, the deduction will be $60,000 (30% of $200,000) and the $58,000 carryover will be lost because the 2003 return will be the final return for Russell.

42. a. Based on these facts, Roberta can deduct $660 as a charitable contribution for 2003. The deduction is based on the difference between the purchase price of the four tickets (4 X $200) and their fair market value (4 X $35). Giving the tickets to the minister is of no consequence, because the minister is not a qualified charity. p. 9-21

b. The pledge to the building fund of the church yields no deduction for 2003. In this regard, it makes no difference whether Roberta uses the cash or the accrual method of accounting for tax purposes. Except for limited exceptions involving accrual basis corporations and fiduciary entities, charitable donations are deductible only in the year in which they are paid. Had the check that satisfied the pledge been mailed on December 31, 2003, Roberta could have claimed a deduction for 2003. As the situation is described, however, the $4,000 deduction relates to 2004. p. 9-22
Ms. Alice Young  
2622 Bayshore Drive  
Berkeley, CA  94709

Dear Ms. Young:

I have evaluated the proposed alternatives for your 2003 year-end contribution to the United Way. I recommend that you sell the Gold Corporation stock and donate the proceeds to the United Way. The four alternatives are discussed below.

Donation of cash, the unimproved land, or the Gold stock will each result in a $21,000 charitable contribution deduction. Donation of the Blue Corporation stock will result only in a $3,000 charitable contribution deduction.

A direct contribution of the Gold Corporation stock will be a bad move taxwise in that the decline in value of $5,000 ($21,000 – $26,000) is not deductible and the amount of the charitable contribution would be $21,000. However, you will benefit in two ways if you sell the Gold stock and give the $21,000 in proceeds to the United Way. Donation of the proceeds will result in a $21,000 charitable contribution deduction. In addition, sale of the stock would result in a $5,000 long-term capital loss. If you have capital gains of $2,000 or more in 2003, you could use the entire loss in computing taxable income for 2003. If you have no capital gains in 2003, you can deduct $3,000 of the capital loss in 2003 and carry the remaining $2,000 over to 2004.

You should make the donation in time for ownership to change hands before the end of the year. Therefore, I recommend that you notify your broker immediately so there will be no problem in completing the donation on a timely basis.

I will be pleased to discuss my recommendation in further detail if you wish. Please call me at (510) 555-1234 if you have questions. Thank you for consulting my firm on this matter. We look forward to serving you in the future.

Sincerely,

Nora Oldham, CPA  
Partner

Example 44
January 20, 2004

Mr. and Mrs. Manuel Garcia
5904 Stevens Avenue
Durham, NC  27707

Dear Mr. and Mrs. Garcia:

I have reviewed the tax information you provided and have determined that you will save $875 in Federal income tax if you file separate returns for 2003. While it is usually advantageous to file jointly, that is not the case for you this year because of Manuel’s high medical expenses and his unreimbursed employee expenses. A detailed computation that supports my recommendation is enclosed.

I will be pleased to discuss my recommendation in further detail if you wish. Please call me at 555-9999 if you have questions. Thank you for consulting my firm on this matter. We look forward to serving you in the future.

Sincerely,

Rodney Rodriguez, CPA
Partner

Manuel and Rosa Garcia
Comparison of Joint and Separate Tax Liabilities
Tax Year 2003

Separate and joint tax liabilities for 2003 are computed as shown below. These computations are based on all information provided by Manuel and Rosa Garcia.

<table>
<thead>
<tr>
<th></th>
<th>Manuel</th>
<th>Rosa</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Business net income</td>
<td>$100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Interest income**</td>
<td>1,500</td>
<td>2,300</td>
<td>3,800</td>
</tr>
<tr>
<td>Gross income</td>
<td>$41,500</td>
<td>$102,300</td>
<td>$143,800</td>
</tr>
<tr>
<td>Deductions for AGI</td>
<td>(2,000)</td>
<td>(13,000)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>AGI</td>
<td>$39,500</td>
<td>$89,300</td>
<td>$128,800</td>
</tr>
<tr>
<td>Medical expenses after 7.5% floor</td>
<td>$6,538</td>
<td>$-0-</td>
<td>$440</td>
</tr>
<tr>
<td>State income tax</td>
<td>800</td>
<td>2,000</td>
<td>2,800</td>
</tr>
<tr>
<td>Real estate tax</td>
<td>1,700</td>
<td>1,700</td>
<td>3,400</td>
</tr>
<tr>
<td>Mortgage interest</td>
<td>2,600</td>
<td>2,600</td>
<td>5,200</td>
</tr>
<tr>
<td>Unreimbursed employee expenses after 2% floor</td>
<td>310</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Total itemized deductions</td>
<td>$11,948</td>
<td>$6,300</td>
<td>$11,840</td>
</tr>
<tr>
<td>Limited to</td>
<td></td>
<td>5,713*</td>
<td></td>
</tr>
<tr>
<td>Exemptions</td>
<td>3,050</td>
<td>3,050</td>
<td>6,100</td>
</tr>
<tr>
<td>Total deductions from AGI</td>
<td>(14,998)</td>
<td>(8,763)</td>
<td>(17,940)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$24,502</td>
<td>$80,537</td>
<td>$110,860</td>
</tr>
</tbody>
</table>
### Deductions and Losses: Certain Itemized Deductions

<table>
<thead>
<tr>
<th>Description</th>
<th>9-19</th>
<th>19</th>
<th>23.638</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>$3,469</td>
<td>$19,294</td>
<td>$23,638</td>
</tr>
</tbody>
</table>

**Savings filing separately:**
- **Tax filing jointly:** $23,638
- **Tax filing separately ($3,469 + $19,294):** (22,763)
- **Savings:** $ 875

**Itemized deduction limitation:**
- **AGI:** $89,300
- **Minus threshold (69,750):** $19,550
- **Reduction (19,550 X .03):** $ 587
- **Total itemized deductions:** $ 6,300
- **Reduction (587):** $ 5,713

**Interest income:**
- **Manuel’s interest:** $ 400
- **Rosa’s interest:** $1,200
- **Their joint interest:** $1,500

**pp. 9-29 and 9-30**

45. For the medical expenses, the taxpayers are allowed $5,000 [$23,000 – (7.5% X $240,000)]. The casualty loss must first be reduced by $100 and then by $24,000 (10% X $240,000). Thus, only $1,900 [$26,000 – $24,100 ($100 + $24,000)] can be deducted. Note that neither the medical expenses nor the casualty loss is subject to the overall limitation on itemized deductions.

Regarding the overall limitation, the cutback adjustment is $3,015 [3% X ($240,000 – $139,500)]. Because the covered itemized deductions total $55,000 ($10,000 + $13,000 + $17,000 + $15,000) and 80% of $55,000 is $44,000, the 80% rule does not apply (use the lesser of $3,015 or $44,000).

Consequently, the taxpayer’s allowable itemized deductions for 2003 are $5,000 (medical) + $1,900 (casualty) + $51,985 ($55,000 – $3,015), or $58,885.

**Example 38**

46. Ken’s itemized deductions before the overall limitations are computed below:

<table>
<thead>
<tr>
<th>Description</th>
<th>9-19</th>
<th>4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical expenses [$29,500 – (7.5% X $340,000)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and local income taxes</td>
<td>4,100</td>
<td></td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>2,900</td>
<td></td>
</tr>
<tr>
<td>Home mortgage interest</td>
<td>3,600</td>
<td></td>
</tr>
<tr>
<td>Charitable contributions</td>
<td>3,700</td>
<td></td>
</tr>
<tr>
<td>Casualty loss [$36,000 – (10% X $340,000)]</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Unreimbursed employee expenses [(7,900 – (2% X $340,000))]</td>
<td>1,100</td>
<td></td>
</tr>
<tr>
<td>Gambling losses ($9,400 loss limited to $6,300 of gambling income)</td>
<td>6,300</td>
<td></td>
</tr>
<tr>
<td>Total itemized deductions before overall limitation</td>
<td>$27,700</td>
<td></td>
</tr>
</tbody>
</table>
Ken’s itemized deductions after application of the overall limitation are computed below:

Itemized deductions subject to overall limitation:

- State and local income taxes $ 4,100
- Real estate taxes 2,900
- Home mortgage interest 3,600
- Charitable contributions 3,700
- Unreimbursed employee expenses 1,100
Total $15,400

Reduction equals the smaller of the following:
- 3% X ($340,000 AGI – $139,500) $ 6,015
- 80% of itemized deductions subject to limitation 12,320
($15,400 X 80%)

Amount of reduction (6,015)

Deductible itemized deductions subject to overall limitation $9,385

Itemized deductions not subject to overall limitation:

- Medical expenses 4,000
- Gambling losses 6,300
- Casualty loss 2,000
Total itemized deductions $21,685

Itemized deductions not subject to overall limitation:

- Medical expenses 4,000
- Gambling losses 6,300
- Casualty loss 2,000
Total itemized deductions $21,685

pp. 9-29, 9-30, and Example 38

47. a. Steve and Judy have AGI of $237,300 for 2003, which will trigger the 3% floor that applies to high income taxpayers. Their itemized deductions before applying the 3% floor are computed below:

State and local income taxes $ 5,600
- Real estate taxes 7,900
- Home mortgage interest 8,400
- Charitable contributions 7,300
- Gambling losses ($6,600 loss limited to $4,200 of gambling income) 4,200
Total itemized deductions before overall limitation $33,400

Their itemized deductions after application of the overall limitation are computed below:

Itemized deductions subject to overall limitations

[$33,400 – $4,200 gambling losses (from above)]: $29,200

Reduction equals the smaller of the following:
- 3% X ($237,300 AGI – $139,500) $ 2,934
- 80% of itemized deductions subject to limitation 23,360
($29,200 X 80%)

Amount of reduction (2,934)

Deductible itemized deductions subject to overall limitation $26,266

Itemized deductions not subject to overall limitation:

- Gambling losses 4,200
Total allowable itemized deductions $30,466

b. AGI $237,300

Less: Itemized deductions (30,466)
Less: Personal and dependency exemptions* (9,272)
Taxable income $197,562
* Exemption phase-out:
  AGI $237,300
  Minus threshold (209,250)
  Excess $ 28,050
  Divided by 2,500
  Rounded up 11.22
  Phase-out percentage X 2%

  Exemption before phase-out (4 X $3,050) $ 12,200
  Allowed exemption percent (100% – 24% phase-out) X 76%
  Allowed exemption $ 9,272

48. Thomas’s itemized deductions before the overall limitation are computed as follows:

  Medical expenses \[20,000 – (7.5\% \times 240,000)\] $ 2,000
  State and local income taxes 3,900
  Real estate taxes 2,100
  Home mortgage interest 4,400
  Charitable contributions 4,500
  Casualty loss \[25,000 – (10\% \times 240,000)\] 1,000
  Unreimbursed employee expenses \[5,600 – (2\% \times 240,000)\] 800
  Gambling losses ($4,900 loss limited to $2,700 of gambling income) 2,700
  Total itemized deductions before overall limitation $21,400

Thomas’s itemized deductions subject to the overall limitation are as follows:

  Itemized deductions subject to overall limitation:
  State and local income taxes $ 3,900
  Real estate taxes 2,100
  Home mortgage interest 4,400
  Charitable contributions 4,500
  Unreimbursed employee expenses 800
  Total $15,700

Thomas must reduce this amount by the smaller of the following:

  3%($240,000 AGI – $139,500) $ 3,015
  80% of itemized deductions subject to limitation 12,560
  ($15,700 X 80%)

Therefore, the amount of the reduction is $3,015 and Thomas has $18,385 of deductible itemized deductions, computed as follows:

  Deductible itemized deductions subject to overall limitation $12,685
  ($15,700 – $3,015)
  Itemized deductions not subject to overall limitation:
  Medical expenses 2,000
  Casualty losses 1,000
  Gambling losses 2,700
  Deductible itemized deductions $18,385
Example 38

CUMULATIVE PROBLEMS

49. Tax Computation

Bruce’s salary $45,000
Alice’s salary 40,000
Interest income 1,450
Adjusted gross income $86,450
Less: Itemized deductions (Note 1) (28,186)
Less: Personal and dependency exemptions (Bruce, Alice, 2 children, Alice’s mother, and Bruce’s father) (Note 2) (18,000)
Taxable income $40,264

Tax from Tax Table 5,441
Less: Prepayments and credits
   Income tax withheld ($3,200 + $4,000) (7,200)
Net tax payable (or refund due) for 2002 ($1,759)

See the tax return solution beginning on p. 9-26 of the Solutions Manual.

Notes

(1) Itemized deductions are summarized below:

Medical expenses:
   Medical insurance premiums $ 6,100
   Doctor bill paid in 2002 for services in 2001 2,500
   Operation for Bruce’s father (a dependent under a multiple support agreement) 6,300
   Total medical expenses $14,900
   Less: 7.5% of $86,450 AGI (6,484)
   Medical expenses deductible in 2002 $ 8,416

Taxes:
   State income taxes ($2,900 + $600) $ 3,500
   Property taxes on residence 4,600 8,100

Interest on home mortgage 8,000

Charitable contributions:
   Church contribution $ 3,300
   Tickets to charity dinner dance (Only the excess of the ticket price of $200 over the cost of comparable entertainment of $80 is deductible) 120
   Used clothing donated (limited to fair market value) 250 3,670
Deductions and Losses: Certain Itemized Deductions

Miscellaneous itemized deductions:
- Uniforms ($270 cost + $132 upkeep) $ 402
- Professional journals 150
Total of deductible items $ 552
Less: 2% of $86,450 AGI (1,729)
Miscellaneous itemized deductions deductible in 2002 -0-

Total itemized deductions $28,186

Alice and Bruce would elect to itemize their deductions because the total exceeds the standard deduction of $7,850 for 2002 for married persons filing a joint return.

(2) In addition to the Byrd’s two children, Cynthia and John, Alice’s mother qualifies as a dependency exemption because her Social Security benefits do not count as her own support when they are not spent for that purpose. Bruce’s father, Sam, qualifies as a dependency exemption under a multiple support agreement. Therefore, the deduction is $18,000 ($3,000 x 6).

Part 2—Tax Planning

Bruce’s salary ($45,000 x 1.05) $47,250
Interest income ($8,000 + $1,450) 9,450
Adjusted gross income 56,700
Less: Itemized deductions (Note 1) (11,692)
Less: Personal and dependency exemptions (Bruce, Alice, 2 children, Alice’s mother) (5 X $3,050) (15,250)
Taxable income 29,758

Tax from tax rate schedule $ 3,864
Less: Prepayments and credits
Income tax withheld ($4,000 x 1.05) (4,200)
Net tax payable (or refund due) for 2003 $ 336

Notes
(1) Itemized deductions are summarized below:

Medical expenses:
- Medical insurance premiums $6,100
- Less: 7.5% of $56,700 AGI (4,253) $ 1,847

Taxes:
- State income taxes ($1,500 x 1.05) $1,575
- Property taxes on residence 4,600 6,175

Charitable contributions 3,670

Miscellaneous itemized deductions:
- Professional journals $ 150
- Less: 2% of $56,700 AGI (1,134)
Miscellaneous itemized deductions deductible in 2003 -0-

Total itemized deductions $11,692
50.  

Paul’s salary $ 56,000
Donna’s salary 52,000
Dividends 750
State income tax refund 1,220
Long-term capital gain (Note 1) 7,500

Adjusted gross income $117,470

Less: Itemized deductions (Note 2) (22,773)
Less: Personal and dependency exemptions (15,250)
(Paul, Donna, Larry, Jane, Hannah) (Note 3)

Taxable income $ 79,447

Tax from tax rate schedule (Note 5) $ 15,157
Less: Tax withheld ($9,600 + $9,000) (18,600)
Net tax payable (or refund due) for 2003 ($ 3,443)

Notes

(1) Sale price of 300 shares Acme Corp. stock (300 X $50) $ 15,000
Cost of stock (300 X $25) 7,500
Recognized gain of sale (LTCG) $ 7,500

(2) Itemized deductions:

Medical expenses:
Doctor & hospital bills ($8,700 – $2,000) $ 6,700
Prescription drugs & medicine 640
Insurance premiums 2,810
Total medical 10,150
Less: 7.5% of $117,470 AGI (8,810)
Deductible medical $ 1,340

Taxes:
State income taxes paid ($800 + $700) $ 1,500
Real estate taxes 3,400 4,900

Home mortgage interest 7,460

Contributions:
Church $ 2,300
Books 620 2,920

Casualty loss:
Fair market value $18,000
Less: Nondeductible floor (100)
Less: 10% of $117,470 AGI (11,747) 6,153

Miscellaneous itemized deductions:
Air fare $ 340
Hotel 170
Meals (50% X $95) 48
Registration fee 340
Total deductible items $ 898
Less: 2% of $117,470 AGI (2,349)
Deductible miscellaneous itemized deductions -0-

Total itemized deductions $22,773
(3) Since Donna is the custodial parent, the Decker’s qualify for the dependency deduction for both Larry and Jane. Since they provide over 50% of the support of Hannah, they also qualify for a dependency deduction for her. Thus, the personal exemption and dependency deduction is $15,250 ($3,050 X 5).

(4) Consumer interest is not deductible. Therefore, neither the interest on the auto loan of $1,490 nor the credit card interest of $870 is deductible.

(5) Tax on $47,450 = $ 6,518
31,997 X 27% = 8,639
$79,447 $15,157
Form 1040

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return

2002

 IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0074

Your social security number 018 | 50 | 9555

Spouse's social security number 034 | 48 | 4092

Presidential Election Campaign Funds Contribution

Check box if you wish to contribute to presidential election campaigns. You may not make separate contributions to presidential candidates for the same election cycle if a presidential election is held. Your contribution is deductible on your federal income tax return for 2002 if you itemize your deductions. (See instructions for amounts and limits.)

Election campaign funds are not considered contributions to candidates or political party organizations for the same election cycle. Contributions to political parties or candidates may be claimed as a deduction under other provisions of the income tax laws.

Important!

You must enter your social security number(s) above.

Your social security number(s) above. (See page 21.)

Filing Status

(See page 21.)

Check only one box.

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.

6 Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter the child’s name here.

8 Qualifying widow(er) with dependent child (year spouse died). (See page 21.)

Exemptions

6a Exemptions for yourself, your spouse, and any other person whom you claim as a dependent.

6b Exemptions for your spouse.

6c Exemptions for dependent children (including adopted and foster children) and other dependents (including blind persons).

Exemptions for dependents:

- Cynthia Byrd
  - Dependent’s social security number: 017 44 9126
  - Daughter
- John Byrd
  - Dependent’s social security number: 017 27 4148
  - Son
- Myrtle Jones
  - Dependent’s social security number: 016 15 8765
  - Parent
- Sam Byrd
  - Dependent’s social security number: 034 92 8693
  - Parent

If more than five dependents, see page 22.

Total number of exemptions claimed:

8,000

Income

Wages, salaries, tips, etc. Attach Form(s) W-2.

Salary or wages included in wages, salaries, tips, etc. Attach Form(s) W-2.

Tax-exempt interest. Attach Schedule B if required.

Ordinary dividends. Attach Schedule B if required.

Taxable refunds, credits, or offsets of state and local income taxes (see page 24).

Alimony received.

Business income or (loss). Attach Schedule C or C-EZ.

Capital gain or (loss). Attach Schedule D if required. If not required, check here.

Other gains or (losses). Attach Form 4797.

If you did not get a W-2, see page 23.

IRA distributions.

Pensions and annuities.

Rents.

Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E.

Farm income or (loss). Attach Schedule F.

Unemployment compensation.

Social security benefits.

Other income. List type and amount (see page 29).

Add the amounts in the far right column for lines 7 through 21. This is your total income.

Adjusted Gross Income

Educator expenses (see page 29).

IRA deduction (see page 29).

Student loan interest deduction (see page 31).

Tuition and fees deduction (see page 32).

Architectural services deduction. Attach Form 8853.

Moving expenses. Attach Form 3903.

One-half of self-employment tax. Attach Schedule SE.

Self-employed health insurance deduction (see page 33).

Self-employment SEF, SEFT, and qualified plans.

Penalty on early withdrawal of savings.

Alimony paid by recipient’s SSN.

Add lines 23 through 33a.

Subtract line 34 from line 23. This is your adjusted gross income.

88,450

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 76.

Cat. No. 11321D

Form 1040 2002
### Deductions and Losses: Certain Itemized Deductions

<table>
<thead>
<tr>
<th>Itemized Deductions</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>49. continued</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Tax and Credits</strong></th>
<th><strong>Amount</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Deduction for...</td>
<td></td>
</tr>
<tr>
<td>Itemized deductions (from Schedule A)</td>
<td>9-27</td>
</tr>
<tr>
<td>Alternative minimum tax (see page 33)</td>
<td></td>
</tr>
<tr>
<td>Other Taxes</td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td></td>
</tr>
<tr>
<td>Refund</td>
<td></td>
</tr>
<tr>
<td>Amount You Owe</td>
<td></td>
</tr>
<tr>
<td>Third Party Designee</td>
<td></td>
</tr>
</tbody>
</table>

**Form 1040 (2020)**

**Tax and Credits**

- **Standard Deduction for...**
- **Itemized deductions (from Schedule A)**
- **Alternative minimum tax (see page 33)**

- **Other Taxes**
- **Payments**
- **Refund**
- **Amount You Owe**
- **Third Party Designee**
### Schedules A&B
**Form 1040**

**Schedule A—Itemized Deductions**

(Schedule B is on back)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Medical and dental expenses</td>
<td>$14,900</td>
</tr>
<tr>
<td>2</td>
<td>Enter amount from Form 1040, line 38</td>
<td>$86,400</td>
</tr>
<tr>
<td>3</td>
<td>Multiply line 2 by 7.5% (0.075)</td>
<td>$6,484</td>
</tr>
<tr>
<td>4</td>
<td>Subtract line 3 from line 1, if line 3 is more than line 1, enter -0-</td>
<td>$8,416</td>
</tr>
</tbody>
</table>

**Taxes You Paid**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>State and local income taxes</td>
<td>$3,500</td>
</tr>
<tr>
<td>6</td>
<td>Real estate taxes (see page A-2)</td>
<td>$4,600</td>
</tr>
<tr>
<td>7</td>
<td>Personal property taxes</td>
<td>$700</td>
</tr>
<tr>
<td>8</td>
<td>Other taxes, list type and amount</td>
<td>$800</td>
</tr>
</tbody>
</table>

**Interest You Paid**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Home mortgage interest and points reported to you on Form 1098, 1099, or 1108. See page A-3 for rates</td>
<td>$8,000</td>
</tr>
<tr>
<td>11</td>
<td>Other than by cash or check. If any gift of $250 or more</td>
<td>$3,420</td>
</tr>
</tbody>
</table>

**Gifts to Charity**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Gifts by cash or check. If you made any gift of $250 or more</td>
<td>$3,420</td>
</tr>
<tr>
<td>16</td>
<td>Other than by cash or check. If any gift of $250 or more</td>
<td>$250</td>
</tr>
</tbody>
</table>

**Casualty and Theft Losses**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Casualty or theft losses. Attach Form 4684. See page A-5</td>
<td>$2,670</td>
</tr>
</tbody>
</table>

**Job Expenses and Most Other Miscellaneous Deductions**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Unreimbursed employee expenses—job travel, union dues, job education, etc. You must attach Form 2106 or 1046-ES if required. See page A-5</td>
<td>$552</td>
</tr>
<tr>
<td>21</td>
<td>Tax preparation fees</td>
<td>$552</td>
</tr>
<tr>
<td>22</td>
<td>Other expenses—investment, safe deposit box, etc. List type and amount</td>
<td>$1,729</td>
</tr>
</tbody>
</table>

**Other Miscellaneous Deductions**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Other—from list on page A-6, list type and amount</td>
<td>$2,670</td>
</tr>
</tbody>
</table>

**Total Itemized Deductions**

- **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 38.
- **Yes**: Your deduction may be limited. See page A-8 for the amount to enter.
### Deductions and Losses: Certain Itemized Deductions

#### Schedule B—Interest and Ordinary Dividends

<table>
<thead>
<tr>
<th>Part I Interest</th>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 List name of payer. If any interest is from a self-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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Savings Account:</strong></td>
<td></td>
<td>1,450 00</td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Add the amounts on line 1.</td>
<td></td>
<td>1,450 00</td>
</tr>
<tr>
<td>3 Excludable interest on series EE and I U.S. savings bonds issued after 1989 from Form 8815, line 14. You must attach Form 8815.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a.</td>
<td></td>
<td>1,450 00</td>
</tr>
<tr>
<td><strong>Note:</strong> If line 4 is over $1,500, you must complete Part III.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part II Ordinary Dividends</th>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 List name of payer. Include only ordinary dividends. If you received any capital gain distributions, see the instructions for Form 1040, line 13.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Add the amounts on line 5. Enter the total here and on Form 1040, line 9.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Note:</strong> If line 6 is over $1,500, you must complete Part III.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Part III

<table>
<thead>
<tr>
<th>Foreign Accounts and Trusts</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b If &quot;Yes,&quot; enter the name of the foreign country.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 During 2002, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If &quot;Yes,&quot; you may have to file Form 3520. See page B-2.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see Form 1040 instructions.