

ACC227

Homework Case 2

Due: October 27, 2021 @ 4PM EST

Mike Zhu is a new client to your firm and brings in the different tax documents shown on the next few pages of the case. In addition, based on your interview with the new client you determine the following information:

- Mike, age 37, is married to his partner Ying, age 35. The couple just purchased their first home, with the life insurance proceeds of \$75,000 that Mike received on the death of his father and a mortgage.
- In addition to his full-time job, Mike owns a small business where Mike provides investigation services. He rents a small office where he also has a store front. In the store he meets with customers to their investigation needs, such as investigating a spouse suspected of having an affair, minor property damage incidents, etc. Mike does not maintain any inventory. Service revenue from the storefront is \$16,000. He also provides investigation services to other businesses. Mike has received Form 1099s for the investigation services he provides to these other businesses. The name of his company is Intelligent Investigative Services. The professional activity code is 561600 and the company's EIN number is 15-7894321. Mike's company uses the cash basis of accounting and Mike materially participates in the business. Mike started this business in 2017. The company did not make any payments that required the company to issue 1099s. Expenses related to Intelligent Investigative Services are office rent of \$6,600, Supplies of \$1,400, \$600 for advertising. In addition, Mike drove his van 1,400 miles going to other businesses to provide computer consulting services. Mike placed the van into service on January 1, 2018. Intelligent Investigative Services does qualify for the Qualified Business Income (QBI) Deduction.
- Mike put 18,000 other personal miles on their van. This van is Mike and Ying's only vehicle.
- Mike does not want to contribute to the Presidential Election Campaign Fund.
- Mike and Ying do not have any foreign bank accounts, nor do they have any foreign investments.
- Ying does not work because of a health condition. Although Mike carried a family health insurance policy the entire year, Mike and Ying incurred the following medical expenses related to the condition:


Copays	\$6,000
Prescription Drugs	\$17,500
Medical equipment rental costs	\$3,000

- The premiums paid on his homeowner's policy is \$950.
- Mike made estimated federal tax payments of \$1,000 because of running his small business on the side.
- Property taxes paid on his house \$7,900.
- Mike and Ying made weekly contributions to the American Heart Association of \$30 for 52 weeks.
- Mike and Ying incurred gambling losses of \$6,000.
- Mike works full-time as an accounting manager.
- Mike and Ying do not wish to file separate returns.
- If Mike and Ying qualify for a tax refund they would like the IRS to refund their money.

Required:

Complete Mike and Ying Zhu's 2020 tax forms. Amounts reported on the tax forms should be rounded to the nearest dollar. You may need to do research in the textbook in chapters we have not covered yet or on the IRS website to complete this problem. For instance, you may find it necessary to read pages 15-9 through 15-22 when considering the qualified business income deduction. You may also have to read instructions on the IRS website to complete this assignment. You MUST use the 2020 tax tables to determine the tax. When completing Schedule SE DO NOT COMPLETE PART III. Be sure to put the tax forms in the proper order using the Attachment Sequence numbers provide in the upper right-hand corner of each form.

Check Figure: Refund of \$1,610.00

a Employee's social security number 329-45-1682		Safe, accurate, FASTI Use		OMB No. 1545-0008				Visit the IRS website at www.irs.gov/efile		
b Employer identification number (EIN) 16-1124166				1 Wages, tips, other compensation 79,800.00		2 Federal income tax withheld 9,400.00				
c Employer's name, address, and ZIP code Paychex, Inc. 911 Panarama Trail South Rochester, NY 14625				3 Social security wages 79,800.00		4 Social security tax withheld 4,947.60				
				5 Medicare wages and tips 79,800.00		6 Medicare tax withheld 1,157.10				
				7 Social security tips		8 Allocated tips				
d Control number				9		10 Dependent care benefits				
e Employee's first name and initial Mike Zhu		Last name Zhu		Suff.		11 Nonqualified plans		12a See instructions for box 12		
113 Upper Woods Circle Rochester, NY 14627				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b				
				14 Other		12c				
						12d				
f Employee's address and ZIP code										
15 State Employer's state ID number NY 16-1124166		16 State wages, tips, etc. 79,800.00		17 State income tax 4,788.00		18 Local wages, tips, etc.		19 Local income tax		20 Locality name

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

2020

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

OMB No. 1545-0238

Form W-2G
Certain
Gambling
Winnings

(Rev. January 2021)

For calendar year
20

This information
is being furnished
to the Internal
Revenue Service.

Copy B
Report this income
on your federal tax
return. If this form
shows federal
income tax
withheld in box 4,
attach this copy
to your return.

PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code Del Lago Casino 1133 State Road 414 Waterloo, NY 13165		1 Reportable winnings \$ 2,200.00	2 Date won 5/3/2020
		3 Type of wager Slots	4 Federal income tax withheld \$ 550.00
		5 Transaction	6 Race
PAYER'S federal identification number 16-1234576		PAYER'S telephone number (315) 946-1777	
WINNER'S name Ying Zhu		7 Winnings from identical wagers \$	8 Cashier
Street address (including apt. no.) 113 Upper Woods Circle		9 Winner's taxpayer identification no. 108-42-7890	10 Window
City or town, province or state, country, and ZIP or foreign postal code Rochester, NY 14627		11 First identification	12 Second identification
		13 State/Payer's state identification no. 16-1234576	14 State winnings \$ 2,200.00
		15 State income tax withheld \$ 132.00	16 Local winnings \$
		17 Local income tax withheld \$	18 Name of locality

Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.

Signature ►

Date ►

CORRECTED (if checked)

OMB No. 1545-0238

Form W-2G
Certain
Gambling
Winnings

(Rev. January 2021)

For calendar year
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Copy B
Report this income
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to your return.

PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code Del Lago Casino 1133 State Road 414 Waterloo, NY 13165		1 Reportable winnings \$ 3,300.00	2 Date won 1/15/2020
		3 Type of wager Poker	4 Federal income tax withheld \$ 825.00
		5 Transaction	6 Race
PAYER'S federal identification number 16-1234576		PAYER'S telephone number (315) 946-1777	7 Winnings from identical wagers \$
WINNER'S name Mike Zhu		9 Winner's taxpayer identification no. 329-45-1682	10 Window
Street address (including apt. no.) 113 Upper Woods Circle		11 First identification	12 Second identification
City or town, province or state, country, and ZIP or foreign postal code Rochester, NY 14627		13 State/Payer's state identification no. 16-1234576	14 State winnings \$ 3,300.00
		15 State income tax withheld \$ 198.00	16 Local winnings \$
		17 Local income tax withheld \$	18 Name of locality
Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.			
Signature ►		Date ►	

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Michael's Valley Grill 1694 Penfield Road Rochester, NY 14625		1 Rents	OMB No. 1545-0115	Miscellaneous Income
		\$	2020	
		2 Royalties	Form 1099-MISC	
PAYER'S TIN 16-5950673		RECIPIENT'S TIN 15-7894321		Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		3 Other income	4 Federal income tax withheld	
\$ 750.00	\$ 0.00			
5 Fishing boat proceeds	6 Medical and health care payments			
\$	\$			
RECIPIENT'S name Intelligent Investigative Services Street address (including apt. no.) 7 Main Street City or town, state or province, country, and ZIP or foreign postal code Rochester, NY 14604		7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest	
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	9 Crop insurance proceeds	
			10 Gross proceeds paid to an attorney	
			11	
			12 Section 409A deferrals	
			13 Excess golden parachute payments	
			14 Nonqualified deferred compensation	
		15 State tax withheld	16 State/Payer's state no.	17 State income
		\$ 0.00	16-5950673	\$ 750.00
		\$		\$

Form 1099-MISC

(keep for your records)

www.irs.gov/Form1099MISC

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Harris Corporation 800 Lee Road Rochester, NY 14606		1 Rents \$	OMB No. 1545-0115 2020 Form 1099-MISC	Miscellaneous Income
PAYER'S TIN 366668234		2 Royalties \$	3 Other income \$ 10,400.00	
RECIPIENT'S TIN 15-7894321		5 Fishing boat proceeds \$	4 Federal income tax withheld \$ 0.00	
RECIPIENT'S name Intelligent Investigative Services Street address (including apt. no.) 7 Main Street City or town, state or province, country, and ZIP or foreign postal code Rochester, NY 14604		6 Medical and health care payments \$	7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest \$	9 Crop insurance proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		10 Gross proceeds paid to an attorney \$	11	
		12 Section 409A deferrals \$	13 Excess golden parachute payments \$	
		14 Nonqualified deferred compensation \$	15 State tax withheld \$ 0.00	
		16 State/Payer's state no. 366668234	17 State income \$ 10,400.00	

Form **1099-MISC**

(keep for your records)

www.irs.gov/Form1099MISC

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. M&T Bank One M&T Plaza Buffalo, NY 14203		Payer's RTN (optional)	OMB No. 1545-0112 2020 Form 1099-INT		Interest Income		
PAYER'S TIN 16-0968385		RECIPIENT'S TIN 329-45-1682		Copy B For Recipient			
RECIPIENT'S name Mike Zhu Street address (including apt. no.) 113 Upper Woods Circle City or town, state or province, country, and ZIP or foreign postal code Rochester, NY 14627		FATCA filing requirement <input type="checkbox"/>			This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.		
1 Interest income \$ 1236.00		2 Early withdrawal penalty \$ 0.00					
3 Interest on U.S. Savings Bonds and Treas. obligations \$ 0.00		4 Federal income tax withheld \$ 0.00					
5 Investment expenses \$ 0.00		6 Foreign tax paid \$ 0.00					
7 Foreign country or U.S. possession		8 Tax-exempt interest \$ 0.00					
9 Specified private activity bond interest \$ 0.00		10 Market discount \$ 0.00					
11 Bond premium \$ 0.00		12 Bond premium on Treasury obligations \$ 0.00					
13 Bond premium on tax-exempt bond \$ 0.00		14 Tax-exempt and tax credit bond CUSIP no.					
15 State NY		16 State identification no. 16-0968385		17 State tax withheld \$ 0.00			
Account number (see instructions) 1359846							

Form **1099-INT**

(keep for your records)

www.irs.gov/Form1099INT

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. JP Morgan Chase Bank 1 Chase Manhattan Plaza New York, NY 10081		Payer's RTN (optional)	OMB No. 1545-0112 2020 Form 1099-INT		Interest Income
PAYER'S TIN 13-4994640		RECIPIENT'S TIN 329-45-1682		Copy B For Recipient	
RECIPIENT'S name Mike Zhu Street address (including apt. no.) 113 Upper Woods Circle City or town, state or province, country, and ZIP or foreign postal code Rochester, NY 14627		FATCA filing requirement <input type="checkbox"/>			
Account number (see instructions) 268004967					
		1 Interest income \$ 750.00	2 Early withdrawal penalty \$ 0.00		
		3 Interest on U.S. Savings Bonds and Treas. obligations \$ 0.00			
		4 Federal income tax withheld \$ 0.00	5 Investment expenses \$ 0.00		
		6 Foreign tax paid \$ 0.00	7 Foreign country or U.S. possession		
		8 Tax-exempt interest \$ 0.00	9 Specified private activity bond interest \$ 0.00		
		10 Market discount \$ 0.00	11 Bond premium \$ 0.00		
		12 Bond premium on Treasury obligations \$ 0.00	13 Bond premium on tax-exempt bond \$ 0.00		
		14 Tax-exempt and tax credit bond CUSIP no.	15 State NY	16 State identification no. 13-4994640	17 State tax withheld \$ 0.00

Form **1099-INT**

(keep for your records)

www.irs.gov/Form1099INT

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

Mortgage Interest Statement

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Lyons National Bank 5 Forgham Street Lyons, NY 14489	*Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.	OMB No. 1545-1380 2020 Form 1098
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RECIPIENT'S/LENDER'S TIN 15-0372430	PAYER'S/BORROWER'S TIN 329-45-1682	1 Mortgage interest received from payer(s)/borrower(s)* \$ 7,979.00	3 Mortgage origination date 1-16-2020
PAYER'S/BORROWER'S name Mike Zhu		2 Outstanding mortgage principal \$ 266,000	5 Mortgage insurance premiums \$ 0.00
Street address (including apt. no.) 113 Upper Woods Circle		4 Refund of overpaid interest \$ 0.00	6 Points paid on purchase of principal residence \$ 0.00
City or town, state or province, country, and ZIP or foreign postal code Rochester, NY 14627		7 <input checked="" type="checkbox"/> If address of property securing mortgage is the same as PAYER'S/BORROWER'S address, the box is checked, or the address or description is entered in box 8.	
9 Number of properties securing the mortgage 1	10 Other	8 Address or description of property securing mortgage (see instructions)	
Account number (see instructions) 20034006		11 Mortgage acquisition date	

Copy B For Payer/Borrower

The information in boxes 1 through 9 and 11 is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a nondeductible item.