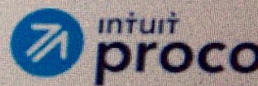


41. Jane Smith, age 40, is single and has no dependents. She is employed as a legal secretary by Legal Services, Inc. She owns and operates Typing Services located near the campus of Florida Atlantic University at 1986 Campus Drive, Boca Raton, FL 33434. Jane is a material participant in the business. She is a cash basis taxpayer. Jane lives at 2020 Oakcrest Road, Boca Raton, FL 33431. Jane's Social Security number is 123-45-6781. Jane indicates that she wants to designate \$3 to the Presidential Election Campaign Fund. Jane had health insurance for all months of 2018. During 2018, Jane had the following income and expense items:

- a. \$100,000 salary from Legal Services, Inc.
- b. \$20,000 gross receipts from her typing services business.
- c. \$700 interest income from Third National Bank.
- d. \$1,000 Christmas bonus from Legal Services, Inc.
- e. \$60,000 life insurance proceeds on the death of her sister.
- f. \$5,000 check given to her by her wealthy aunt.
- g. \$100 won in a bingo game.
- h. Expenses connected with the typing service:



Office rent	\$7,000
Supplies	4,400
Utilities and telephone	4,680
Wages to part-time typists	5,000
Payroll taxes	500
Equipment rentals	3,000

- i. \$9,500 interest expense on a home mortgage (paid to San Jose Savings and Loan).
- j. \$15,000 fair market value of silverware stolen from her home by a burglar on October 12, 2018. Jane had paid \$14,000 for the silverware on July 1, 2008. She was reimbursed \$10,000 by her insurance company.
- k. Jane had loaned \$2,100 to a friend, Joan Jensen, on June 3, 2014. Joan declared bankruptcy on August 14, 2018, and was unable to repay the loan. Assume that the loan is a bona fide debt.
- l. Legal Services, Inc., withheld Federal income tax of \$15,000 and the appropriate amount of FICA tax from her wages.
- m. Alimony of \$10,000 received from her former husband, Ted Smith; divorce was finalized in 2012, and no changes have been made to the divorce decree since that time.
- n. Interest income of \$800 on City of Boca Raton bonds.
- o. Jane made estimated Federal tax payments of \$2,000.
- p. Sales taxes from the sales tax table of \$953.

- q. Property taxes on her residence of \$3,200.
- r. Charitable contribution of \$2,500 to her alma mater, Citrus State College.
- s. On November 1, 2018, Jane was involved in an automobile accident. At the time of the accident, Jane's automobile had an FMV of \$45,000. After the accident, the automobile's FMV was \$38,000. Jane acquired the car on May 2, 2017, at a cost of \$52,000. Jane's car was covered by insurance, but because the policy had a \$5,000 deduction clause, Jane decided not to file a claim for the damage.

Part 1—Tax Computation

Compute Jane Smith's 2018 Federal income tax payable (or refund due). If you use tax forms for your computations, at a minimum you will need Form 1040, Schedule 1 (Form 1040), and Schedules A, C, and D. Suggested software: ProConnect Tax Online.