

TAX RETURN PROBLEM

Paul and Donna Decker are married taxpayers, ages 44 and 42, respectively, who file a joint return for 2013. The Deckers live at 1121 Collage Avenue, Moab, Utah, 84632. Paul is an assistant manager at Moab Motor Inn, and Donna is a teacher at Carmel Elementary School. They present you with W-2 forms that reflect the following information:

	<u>Paul</u>	<u>Donna</u>
Salary	\$ 68,000	\$46,000
Federal tax withheld	7,770	5,630
FICA (Social Security and Medicare) withheld	5,202	3,519
Utah State tax withholding	1,301	812
Social Security Numbers	111-11-1111	123-45-6789

Donna is the custodial parent of two children from a previous marriage who reside with the Deckers through the entire school year. The children, Larry and Jane Parker, reside with their father, Bob Parker, during the summer months. Relevant information for the children follows:

	<u>Larry</u>	<u>Jane</u>
Age	17	18
Social Security numbers	123-45-6788	123-45-6787
Months spent with Deckers	9	9

Under the divorce decree, Bob Parker pays child support of \$150 per month per child during the nine months the children live with the Deckers, and no alimony. Bob says that he spends \$200 per month per child during the three summer months they reside with him. Donna and Paul can document that they provide \$2,000 support per child per year. The divorce decree is silent as to which parent can claim the exemptions for the children, and no Form 8832 has been signed by either parent of the children.

In August, Paul and Donna added a mother-in-law's quarters to their home to provide more comfortable accommodations for Hannah Snyder (123-45-6786), Donna's mother, who had moved in with them in February 2012 after the death of Donna's father. Not wanting to borrow money for this addition, Paul sold 300 shares of Acme Corporation Stock for \$50 per share on May 3, 2013, and used the proceeds of \$15,000, minus sales commissions, to cover construction costs. He paid his broker sales commissions on the sale of all 300 shares in the amount of \$103.00.

The Deckers had purchased 400 shares of Acme Corporation stock on April 29, 2008, for \$25 per share, paying a brokerage commission of \$72.00. They received cash dividends of \$750 on the jointly owned stock a month before the sale.

Hannah Snyder, who is 66 years old, received \$7,500 in Social Security benefits during the year, from which she gave the Deckers \$2,000 to use toward household expenses and

deposited the remainder in her personal savings account. The Deckers determine that they have spent \$2,500 of their own money for food, clothing, medical expenses, and other items for Hannah. The Deckers do not know what the rental value of Hannah's quarters would be, but they estimate it would be at least \$300 per month.

The Deckers pay interest expenses during the year, as follows:

Home mortgage in the principal amount of \$240,000 (paid to America First Federal Savings & Loan)	\$7,890
Interest on an automobile loan (paid to Carmel National Bank)	1,660
Interest on Citibank Visa card	620

In July, Paul hit a submerged rock while boating. Fortunately, he was uninjured after being thrown from the boat and landing in deep water. However, the boat, which was uninsured, was totally destroyed. Paul had paid \$25,000 for the boat in June 2012, and its value was appraised at \$18,000, immediately before the accident.

The Deckers paid doctor and hospital bills of \$8,700 and were reimbursed \$2,000 by their insurance company. They spent an additional \$640 for prescription drugs and medicines and \$5,904 for premiums on their health insurance policy. They have filed additional claims of \$1,200 with their insurance company and have been told they will receive payment for a portion of these claims (\$850) sometime next year.

Additional information of potential tax consequence follows:

Real estate taxes paid on personal residence	\$3,850
Sales taxes paid (per table)	1,379
Contributions to church (paid in cash)	1,950
Appraised value of books donated to public library (original cost 1,850)	740
Paul's unreimbursed employee expenses to attend Hotel management convention in Las Vegas	
Airfare	1,340
Hotel	440
Meals	190
Registration fee	340
Refund of state income tax for 2012 (the Deckers Itemized their deductions on their 2012 Federal tax return)	1,520

Paul and Donna flew together to the hotel management convention in Las Vegas. They arrived late on Wednesday evening. Paul attended the convention all day (at least 8 hours) on Thursday and Friday. They went to a couple of shows and did some gambling on Thursday and Friday evening. Although the convention ended on Friday, they decided to stay all day Saturday and have some fun. They flew home early Sunday morning. While in Las Vegas, Donna had

casino winnings of \$4,500 and casino losses of \$2,100, while Paul had \$300 in casino losses with no winnings.

On September 27, 2013, Paul and Donna received a 10% stock dividend on 600 shares of Utah Mining Corporation stock they owned. They had bought the stock on March 5, 2005, for \$20 a share. On December 16, 2013, they sold the 60 dividend shares for \$55 a share. Neither the purchase nor the sale involved a brokerage commission or other expenses.

On October 10, 2013, Donna sold the Nissan automobile she had used in commuting to and from work and driving her family around town for \$17,000. She had paid \$31,000 for the automobile in 2006.

On July 14, 2004, Paul and Donna received a gift of 1,000 shares of Microsoft stock from Donna's father, Thomas. Thomas's basis in the stock was \$35 a share (fair market value at the date of gift was \$25). No gift tax was paid on the transfer. Paul and Donna sold all 1,000 shares of Microsoft stock on October 8, 2013, for \$24 a share.

Donna received rental income of \$18,000 on a beach house she inherited three years ago from her Uncle Chuck. The property was rented for all 12 months of 2013. Uncle Chuck's adjusted basis in the beach house was \$150,000, and its fair market value on the date of his death was \$240,000. Expenses associated with the house, and paid by Paul and Donna, were \$3,700 for utilities; \$2,200 for property taxes; \$800 for insurance, and \$1,300 for maintenance and repairs. There are no mortgages on the property.

Prepare the complete 2013 federal tax return for the Deckers, including all schedules and attachments. If you choose to use the H&R Block software you should prepare a 2012 return and treat every date listed in the problem as having occurred exactly one (1) year earlier.