

2013. Their charitable contributions total \$2,400 (all to their church). They paid sales taxes of \$1,400, for which they maintain the receipts.

Compute the Olds' net tax payable (or refund due) for 2013. If you use tax forms for your solution, you will need Form 1040 and Schedules A and B. Suggested software: H&R BLOCK Tax Software.

60. Martin S. Albert (Social Security number 111-11-1111) is 39 years old and is married to Michele R. Albert (Social Security number 123-45-6789). The Alberts live at 512 Ferry Road, Newport News, VA 23601. They file a joint return and have two dependent children, Charlene, age 17, and Jordan, age 18. Charlene's Social Security number is 123-45-6788, and Jordan's Social Security number is 123-45-6787. In 2014, Martin and Michele had the following transactions:
- Martin received \$120,000 in salary from Red Steel Corporation, where he is a construction engineer. Withholding for Federal income tax was \$10,750. The amounts withheld for FICA taxes were as follows: \$7,049 ($\$113,700 \times 6.2\%$) for Social Security and \$1,740 ($\$120,000 \times 1.45\%$) for Medicare. Martin worked in Mexico from January 1, 2013, until February 15, 2014. His \$120,000 salary for 2014 includes \$18,000 he earned for January and one-half of February 2014 while working in Mexico.
 - Martin and Michele received \$800 in qualified dividends on Green, Inc. stock and \$400 interest on Montgomery County (Virginia) school bonds.
 - Martin received \$2,300 interest from a Bahamian bank account.
 - Michele received 50 shares of Applegate Corporation common stock as a stock dividend. The shares had a fair market value of \$2,500 at the time Michele received them, and she did not have the option of receiving cash.
 - Martin and Michele received a \$1,200 refund on their 2013 Virginia income taxes. Their itemized deductions in 2013 totaled \$14,000.
 - Martin paid \$6,600 alimony to his former wife, Rose T. Morgan (Social Security number 123-45-6786).
 - Martin and Michele kept the receipts for their sales taxes paid of \$1,100.
 - Martin and Michele's itemized deductions were as follows:
 - State income tax paid and withheld totaled \$5,100.
 - Real estate taxes on their principal residence were \$3,700.
 - Mortgage interest on their principal residence was \$2,500.
 - Cash contributions to the church totaled \$2,800.

Part 1—Tax Computation

Compute the Alberts' net tax payable (or refund due) for 2014.

Part 2—Tax Planning

The Alberts are considering buying another house. Their house mortgage payments would increase by \$500 (to \$1,500) per month, which includes a \$250 increase in interest and a \$100 increase in property tax. The Alberts would like to know how much the mortgage payments would increase net of any change in their income tax. Write a letter to the Alberts that contains your advice.

Tax Computation Problem

Decision Making

Communications

Research Problems

Note: Solutions to Research Problems can be prepared by using the **Checkpoint® Student Edition** online research product, which is available to accompany this text. It is also possible to prepare solutions to the Research Problems by using tax research materials found in a standard tax library.

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Research Problem 1. Murray reported to the Environmental Protection Agency that his employer was illegally dumping chemicals into a river. His charges were true, and Murray's employer was fined. In retaliation, Murray's employer fired him and made deliberate efforts to prevent Murray from obtaining other employment. Murray sued the employer, claiming that his reputation had been damaged. Murray won his lawsuit and received an award for "damages to his personal and professional reputation and for his mental suffering." Now he would like to know whether the award is taxable. He argues that he was awarded damages as a recovery of his human capital and that a recovery of