

employed full-time in other pursuits, but they take patrons out during the summer months, on weekends and holidays. Alan has attended classes on boat operation and parasailing instruction. Katie and Alan have owned a boat for four years, but because of the heavy usage this summer, they replaced their old boat in July. They plan on replacing their boat with a new one every two years now. They use their boat in the parasailing activity and for recreational purposes. This year, Katie and Alan earned \$5,400 from chartering activities and incurred \$11,600 of expenses associated with their boating and parasailing. What tax issues should Katie and Alan consider?

PROBLEMS

I:6-33 *For or From AGI Deductions.* Roberta is an accountant employed by a local firm. During the year, Roberta incurs the following unreimbursed expenses:

<u>Item</u>	<u>Amount</u>
Travel to client locations	\$750
Subscriptions to professional journals	215
Taking potential clients to lunch	400
Photocopying	60
	<u>\$1,425</u>

- Identify which of these expenses are deductible and the amount that is deductible by Roberta. Indicate whether they are deductible *for* or *from* AGI.
- Would the answers to Part a change if the accounting firm reimburses Roberta for these expenses under an accountable plan?
- Assume all of the same facts as in Part a, except that Roberta is self-employed. Identify which of the expenses are deductible, and indicate whether they are deductions *for* or *from* AGI.

I:6-34

For vs. from AGI. During 2013, Kent, a single taxpayer, reports the following items of income and expense:

Income:	
Salary	\$150,000
Dividends from Alta Corporation	800
Interest income from a savings account	1,500
Rental income from a small apartment he owns	8,000
Expenses:	
Medical	6,000
Interest on a principal residence	7,000
Real property taxes on the principal residence	4,300
Charitable contributions	4,000
Casualty loss—personal	6,100
Miscellaneous itemized deductions	1,200
Loss from the sale of Delta Corporation stock (held for two years)	2,000
Expenses incurred on the rental apartment:	
Maintenance	500
Property taxes	1,000
Utilities	2,400
Depreciation	1,700
Insurance	800
Alimony payments to former wife	10,000

Assuming all of these items are deductible and that the amounts are before any limitations, what is Kent's taxable income for the year?

I:6-35

Capitalization vs. Expense. Rentals R Us incurs the following expenditures on an apartment building it owns:

<u>Item</u>	<u>Amount</u>
Replace the roof	\$25,000
Repaint the exterior	7,000
Install new locks	1,500
Replace broken windows	1,200
Replace crumbling sidewalks and stairs	7,000

Discuss the proper tax treatment for these expenditures.

March 1 of the following year. The stock's FMV is \$100,000 and Circle's adjusted basis in the stock is \$50,000. Circle has held the stock for over one year. Circle's taxable income (before deducting any charitable contributions) for the current year is \$4,000,000.

- a. What is the amount of Circle's charitable contribution for the current year?
- b. How much of the contribution can Circle deduct in the current year and how much may be carried over, if any?

I:7-59

Charitable Contribution Carryovers. Bonnie's charitable contributions and AGI for the past four years were as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
AGI	\$50,000	\$55,000	\$58,000	\$60,000
Contributions subject to the 50% limitation	40,000	29,000	25,000	10,000

What is the amount of the charitable deduction for each year and the order in which the deduction and carryovers are used?

COMPREHENSIVE PROBLEM

I:7-60

Tim and Monica Nelson are married, file a joint return, and are your newest tax clients. They provide you with the following information relating to their 2013 tax return:

1. Tim works as a pediatrician for the county hospital. The W-2 form he received from the hospital shows wages of \$150,000 and state income tax withheld of \$8,500.
2. Monica spends much of her time volunteering, but also works as a substitute teacher for the local schools. During the year, she spent 900 hours volunteering. When she doesn't volunteer, she earns \$8.00 per hour working as a substitute. The W-2 form she received from the school district shows total wages of \$3,888 and state income tax withheld of \$85.
3. On April 13, the couple paid \$250 in state taxes with their 2012 state income tax return. The Nelson's state and local sales taxes in 2013 were \$5,500.
4. On December 18, the Nelsons donated a small building to the Boy Scouts of America. They purchased the building three years ago for \$80,000. A professional appraiser determined the fair market value of the home was \$96,000 on December 12.
5. Tim and Monica both received corrective eye surgery, at a total cost of \$3,000. They also paid \$1,900 in health insurance premiums.
6. On June 1, the couple bought a car for \$30,000, paying \$18,000 down and borrowing \$12,000. They paid \$750 total interest on the loan in 2013.
7. On June 10, the Nelsons took out a home equity loan of \$20,000 to expand their home. They paid a total of \$850 interest with their monthly payments on the loan.
8. The Nelsons paid a total of \$2,300 interest on their original home loan.
9. They sold stock in Cabinets, Inc. for \$5,200, which they purchased for \$7,900 in March of the current year. They also sold stock in The Outdoor Corporation for \$12,500, which they purchased several years ago for \$8,600.
10. Tim incurred the following expenses related to his profession, none of which were reimbursed by his employer:

<u>Item</u>	<u>Amount</u>
Subscriptions to medical journals	\$400
American Medical Association (AMA) annual membership fee	250

11. During the year, the couple paid their former tax advisor \$700 to prepare their prior year tax return.
12. The Nelsons do not have children, and they do not provide significant financial support to any family members.

Required: Compute the Nelson's taxable income for 2013.

TAX STRATEGY PROBLEMS

I:7-61

Dean makes a pledge of \$30,000 to a local college. The college is willing to accept either cash or marketable securities in fulfillment of the pledge. Dean owns stock in Ajax Corporation worth \$30,000. The stock was purchased five years ago for \$10,000. Dean's marginal tax rate is 35% and he is subject to the long-term capital gains rate of 15%. Should Dean sell the stock and then donate the cash, or should