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**Problem 1 – Karl F. and Jeanne S. Wheat****Notes**

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[References correspond to the number used in the fact pattern.]

1. Karl is self-employed and all of the business expenses listed should be reported on Schedule C. Use Part I of Form 4562 to apply §179 expensing for the copier (\$300), waiting room furniture (\$3,600), laptop computer (\$2,100), and camera (\$1,200).
2. Depreciation on the Durango under the MACRS method (use Part V of Form 4562) is computed as:

Cost	\$31,000
First year percentage for 5-year property (Table 8.1, Chap. 8)	20%
First year depreciation deduction	\$ 6,200
Business use	92%
Depreciation related to business use	\$ 5,704

However, as the first year recovery limitation is \$3,260, the depreciation claimed cannot exceed \$2,999 (\$3,260 x 92%).

Deductible expenses under the actual expense method total \$8,914, which is the sum of depreciation of \$2,999 + deductible operating costs of \$5,405 [92% x \$5,875, which is the sum of (\$3,100 + \$1,500 + \$820 + \$225 + \$140 + \$90)] + business parking of \$510.

Deductible expenses under the mileage method total \$8,842, which is the sum of \$7,578 of mileage [\$4,392 (8,612 business miles x \$0.51 mileage rate allowed for Jan-June 2011) + \$3,186 (5,740 business miles x \$0.555 mileage rate allowed for July-Dec 2011)] + \$510 of parking + deductible interest on the car loan of \$754 (92% x \$820). Since the actual expense method yields a higher deduction than does the mileage method, the actual expense method is used.

[Note: If *H&R Block At Home* is used, the program will compare the actual cost method to the mileage method over the expected period of use. If the expected period of use is 6 years, the program estimates that the mileage method will result in greater deductions over that time frame. Nevertheless, since the actual cost method results in a greater deduction this year, the actual cost method is chosen in *H&R Block At Home* and the solution reflects that.]

No deduction is allowed for the \$350 in fines caused by the traffic violations.

3. The receptionist is not technically Karl's employee (she is paid by the landlord) but she serves in that capacity. Consequently, the \$28 gift is deductible. [Nominal charges for gift wrapping are disregarded when imposing the \$25 limitation.]

Karl's travel expenses are allowed as a deduction but are subject the limitation for business meals and entertainment. Thus, deductible business meals total \$420 (50% x \$840) and deductible business entertainment totals \$255 (50% x \$510).

The premiums on disability insurance are not deductible. However, the self-employed health insurance premiums are deductible on line 29, page 1 of Form 1040.

4. The IRA contribution is a deduction *for* AGI and is listed on line 32 of page 1 of Form 1040.

Jeanne's other expenses are miscellaneous itemized deductions subject to the 2%-of-AGI floor. In terms of deducting the use of the Chevrolet Malibu in employment-related activities, the automatic (standard) mileage method is permissible. Although the actual cost method is used for the Durango (see item 2), different cars are involved. Under the mileage method, the deduction is \$498 [\$209 (410 business miles x \$0.51 mileage rate allowed for Jan-June 2011) + \$289 (520 business miles x \$0.555 mileage rate allowed for July-Dec 2011)].

Jeanne's total employment-related expenses which are treated as miscellaneous itemized deductions on Schedule A are as follows:

Job hunting expense	\$ 720
Professional journal	120
Professional dues	90
Continuing education	350
Mileage	<u>498</u>
Total employment-related expenses	\$1,778
Less 2% of AGI	<u>(1,418)</u>
Amount deductible on Schedule A	<u>\$ 360</u>

5. Gene Isaacson can be claimed as a dependent by the Wheats for 2011. It does not matter how long he lived during the year as long as he qualified as a dependent at the time of his death. All of Gene's medical expenses (i.e. \$11,800) can be claimed by the Wheats for 2011, as it is the year of payment that controls deductibility.

Funeral expenses are not deductible for Federal income tax purposes.

6. Under §1014, Jeanne receives Gene's property with a new income tax basis equal to its fair market value at death. For the house and land, this results in a step-up in basis to \$220,000 and \$50,000. For the furniture and appliances, however, a step-down (\$14,000) occurs. In computing depreciation, the new basis under §1014 controls.

Use Table 8.1 in the text for depreciating the personalty (furniture and appliances) and Table 8.6, Column 3, for residential realty (rental home). [For depreciation purposes, the property is deemed placed in service as of March 1—when it was first advertised for rent.] Using Form 4562, the depreciation totals \$9,133 for 2011, comprised of \$2,800 (20% x \$14,000) for the furniture and \$6,333 (2.879% x \$220,000) for the building. The land is not depreciable.

Repairs of \$720 and newspaper advertising of \$360 are deductible in computing net rental income.

7. Rent income is summarized below.

First and last month's rent (2 x \$2,400)	\$ 4,800
May through November (7 x \$2,400)	<u>16,800</u>
	<u>\$21,600</u>

[Note: If you are using *H&R Block At Home*, input 365 in the "days owned" box and in the "days rented" box. Otherwise, the program will apportion the expenses inappropriately.]

The rent for December is not taxed until 2012 since it was not received until then.

The damage deposit is not taxed and becomes income only if and when it is forfeited (i.e., applied towards damages caused by the tenant).

All expenses except the paving assessment are deductible and should be reported on Schedule E. The paving assessment should be added to the cost basis of the land.

8. Karl has a \$10,000 loss from worthless securities. Although it appears that the loss occurs within 12 months (i.e. early December of 2010 to September 2011), under § 165(g)(1) the loss is treated as occurring on the last day of the year of worthlessness. Thus, Karl has a \$10,000 long-term capital loss which he reports on Schedule D of Form 1040.
9. When a taxpayer cannot identify the block of stock that is sold, a FIFO approach is applied. Therefore, the Wheats sold the shares purchased in 2007. Consequently, their gain is \$5,000 [\$17,500 (selling price) – \$12,500 (basis)]. The 500 shares they still own were acquired in 2009.
10. Jeanne's basis in the coin collection is controlled by the gift rules of §1015. Therefore, her basis for gain is her mother's basis of \$9,000. In this case, her basis for loss is also \$9,000 [FMV on the date of the gift (\$18,000) is not lower than basis (\$9,000)]. The measure of a theft loss cannot exceed the lesser of basis (\$9,000) or FMV on date of the theft (\$24,000)—see Concept Summary 7-3 on p. 7-15 in the text. If Jeanne's loss is \$9,000 and the insurance recovery is \$10,000, no loss results. Instead, Jeanne has a \$1,000 long-term capital gain from a collectible—reported on Form 4684 and line 11 of Schedule D. As to the netting process involving gains from collectibles and capital losses, see pp.3-26 and 3-27 in Chapter 3.
11. Under the application of §1014, Jeanne's basis in the lot on Joplin Road is \$19,000—FMV on the date of Violet's death. On the later sale of the property, Jeanne received \$19,700 of consideration since the buyer relieved her of the \$700 in liabilities (back taxes in arrears). Therefore, Jeanne has a long-term capital gain of \$700. Jeanne cannot deduct the taxes because she did not pay them.
12. The presumption is that these "gifts" are compensation for services rendered (i.e., referrals) or to be rendered in the future. It does not matter that there was no obligation or prior agreement to make the payments [see the discussion of the *Duberstein* case on p. 5-5 of the text.] Karl must include \$7,200 in his gross income for 2011—include in Schedule C. The \$900 received on January 4, however, is taxed in 2012.
13. Under the tax benefit rule, the state tax refund is income, reported on line 10, page 1 of Form 1040.

The interest on Missouri bonds is nontaxable, but it must be listed on line 8b, page 1, of Form 1040.

The qualified dividends are subject to the same tax rate as LTCGs—line 44 of Form 1040.

The cash gifts from Karl's parents are nontaxable.

The gambling transactions cannot be netted. The winnings are reported on line 21 of Form 1040 as income. The losses are reported on Schedule A as miscellaneous itemized deductions but are not subject to the 2% of AGI floor.

14. The garage sale netted a realized loss of \$16,300 [\$9,200 proceeds – \$25,500 cumulative bases]. This realized loss is personal and therefore not tax deductible. The \$9,200 proceeds are essentially a nontaxable return of capital.

The medical expenses eligible for deduction total \$14,357 [\$1,300 medical expenses + \$1,200 dental expenses + \$11,800 of Gene's medical expenses + \$57 for medical mileage [\$29 (150 business miles x \$0.19 mileage rate allowed for Jan-June 2011) + \$28 (120 business miles x \$0.235 mileage rate allowed for July-Dec 2011)]].

The charitable deduction is based on the amount paid and not on the pledge year involved. Thus, the full \$3,600 is deductible in 2011. Plus, the Wheats can deduct \$45 (320 miles x \$0.14) for the use of the Malibu for charitable purposes.

15. The Wheats should claim two personal exemptions for themselves and dependency exemptions for Gene, Trace and Trevor. Since Trace saves his earnings for future college expenses and is not providing any of his support, he meets the definition of a qualifying child. The income he earned does not matter since there is no gross income test for a dependent who meets the definition of a qualifying child.

<b>Form 1040</b> Department of the Treasury—Internal Revenue Service (99) <b>2011</b>		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning _____, 2011, ending _____, 20			
Your first name and initial Karl F		Last name Wheat	
If a joint return, spouse's first name and initial Jeanne S		Last name Wheat	
Home address (number and street). If you have a P.O. box, see instructions. 13071 Forestview Drive		Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Columbia MO 65201		Foreign country name Foreign province/country Foreign postal code	
Filing Status		Presidential Election Campaign	
1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. 4 <input type="checkbox"/> Head of household (with qualifying person). (See instr.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 <input type="checkbox"/> Qualifying widow(er) with dependent child		Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Exemptions		Boxes checked on 6a and 6b	
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a		2	
b <input checked="" type="checkbox"/> Spouse		No. of children on 6c who:	
c Dependents:		• lived with you	
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)		• did not live with you due to divorce or separation (see instructions)	
Gene Isaacson 123-45-6784 Parent		1	
Trace Wheat 123-45-6788 Son		Dependents on 6c not entered above	
Trevor Wheat 123-45-6789 Son		5	
d Total number of exemptions claimed		Add numbers on lines above	
Income		7	
7 Wages, salaries, tips, etc. Attach Form(s) W-2		32,000	
8a Taxable interest. Attach Schedule B if required		8a 2,000	
b Tax-exempt interest. Do not include on line 8a		8b 1,400	
9a Ordinary dividends. Attach Schedule B if required		9a 600	
b Qualified dividends		9b 600	
10 Taxable refunds, credits, or offsets of state and local income taxes		10 90	
11 Alimony received		11	
12 Business income or (loss). Attach Schedule C or C-EZ		12 52,393	
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here		13 -3,000	
14 Other gains or (losses). Attach Form 4797		14	
15a IRA distributions		15a 0	
b Taxable amount		15b 0	
16a Pensions and annuities		16a 0	
b Taxable amount		16b 0	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17 6,127	
18 Farm income or (loss). Attach Schedule F		18 0	
19 Unemployment compensation		19	
20a Social security benefits		20a 0	
b Taxable amount		20b 0	
21 Other income. List type and amount		21 1,000	
GAMBLING		22 91,210	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income		22	
Adjusted Gross Income		23	
23 Educator expenses		0	
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ		24 0	
25 Health savings account deduction. Attach Form 8889		25 0	
26 Moving expenses. Attach Form 3903		26 0	
27 Deductible part of self-employment tax. Attach Schedule SE		27 3,701	
28 Self-employed SEP, SIMPLE, and qualified plans		28 8,000	
29 Self-employed health insurance deduction		29 4,600	
30 Penalty on early withdrawal of savings		30 0	
31a Alimony paid b Recipient's SSN		31a 4,000	
32 IRA deduction		32 0	
33 Student loan interest deduction		33 0	
34 Tuition and fees. Attach Form 8917		34 0	
35 Domestic production activities deduction. Attach Form 8903		35 0	
36 Add lines 23 through 35		36 20,301	
37 Subtract line 36 from line 22. This is your adjusted gross income		37 70,909	
KIA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form 1040 (2011)			

Form 1040 (2011)		Karl	F Wheat	111-11-1111	Page <b>2</b>
<b>Tax and Credits</b>		38 Amount from line 37 (adjusted gross income) . . . . .		38	70,909
39a Check <input type="checkbox"/> You were born before January 2, 1947, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1947, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a		0			
b If your spouse itemizes on a separate return, or you were a dual-status alien, check here ▶ 39b		0			
<b>Standard Deduction for—</b> • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,800 Married filing jointly or Qualifying widow(er), \$11,600 Head of household, \$8,500		40 Itemized deductions (from Schedule A) or your standard deduction (see left margin) . . . . .		40	25,400
		41 Subtract line 40 from line 38 . . . . .		41	45,509
		42 Exemptions. Multiply \$3,700 by the number on line 6d . . . . .		42	18,500
		43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . .		43	27,009
		44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> 962 election		44	3,114
		45 Alternative minimum tax (see instructions). Attach Form 6251 . . . . . ▶		45	0
		46 Add lines 44 and 45 . . . . .		46	3,114
		47 Foreign tax credit. Attach Form 1116 if required . . . . .		47	0
		48 Credit for child and dependent care expenses. Attach Form 2441 . . . . .		48	
		49 Education credits from Form 8863, line 23 . . . . .		49	
		50 Retirement savings contributions credit. Attach Form 8880 . . . . .		50	0
		51 Child tax credit (see instructions) . . . . .		51	
		52 Residential energy credits. Attach Form 5695 . . . . .		52	
		53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> . . . . .		53	0
		54 Add lines 47 through 53. These are your total credits . . . . .		54	0
		55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- . . . . . ▶		55	3,114
<b>Other Taxes</b>		56 Self-employment tax. Attach Schedule SE . . . . .		56	6,435
		57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 . . . . .		57	0
		58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . .		58	0
		59a Household employment taxes from Schedule H . . . . .		59a	0
		b First-time homebuyer credit repayment. Attach Form 5405 if required . . . . .		59b	0
		60 Other taxes Enter code(s) from instructions . . . . .		60	
		61 Add lines 55 through 60. This is your total tax . . . . . ▶		61	9,549
<b>Payments</b>		62 Federal income tax withheld from Forms W-2 and 1099 . . . . .		62	1,320
		63 2011 estimated tax payments and amount applied from 2010 return . . . . .		63	8,800
If you have a qualifying child, attach Schedule EIC.		64a Earned income credit (EIC) . . . . .		64a	
		b Nontaxable combat pay election . . . . . 64b			
		65 Additional child tax credit. Attach Form 8812 . . . . .		65	
		66 American opportunity credit from Form 8863, line 14 . . . . .		66	
		67 First-time homebuyer credit from Form 5405, line 10 . . . . .		67	0
		68 Amount paid with request for extension to file . . . . .		68	
		69 Excess social security and tier 1 RRTA tax withheld . . . . .		69	0
		70 Credit for federal tax on fuels. Attach Form 4136 . . . . .		70	
		71 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885 . . . . .		71	0
		72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments . . . . . ▶		72	10,120
<b>Refund</b>		73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid ▶ . . . . .		73	571
Direct deposit? See instructions.		74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here . . . . .		74a	409
		b Routing number XXXXXXXXXX ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
		d Account number XXXXXXXXXXXXXXXXXXXX . . . . .			
		75 Amount of line 73 you want applied to your 2012 estimated tax ▶ 75		0	
<b>Amount You Owe</b>		76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions . . . . . ▶		76	
		77 Estimated tax penalty (see instructions) . . . . . 77		162	
<b>Third Party Designee</b>		Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below <input checked="" type="checkbox"/> No			
		Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶	
<b>Sign Here</b>		Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Joint return? See instructions. Keep a copy for your records.		Your signature	Date	Your occupation Ins Claims Adjustor	Daytime phone number 555-555-5555
		Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation Dietician	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
<b>Paid Preparer Use Only</b>		Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
		Firm's name ▶	Firm's EIN ▶		
		Firm's address ▶	Phone no.		

**SCHEDULE A  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on Form 1040

Karl F Wheat

**Itemized Deductions**▶ **Attach to Form 1040.**▶ **See Instructions for Schedule A (Form 1040).**

OMB No. 1545-0074

**2011**Attachment  
Sequence No. **07**Your social security number  
111-11-1111

<b>Medical and Dental Expenses</b>	<b>Caution.</b> Do not include expenses reimbursed or paid by others.		
1	Medical and dental expenses (see instructions) . . . . .	1	14,357
2	Enter amount from Form 1040, line 38 . . . . .	2	70,909
3	Multiply line 2 by 7.5% (.075) . . . . .	3	5,318
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- . . . . .	4	9,039
<b>Taxes You Paid</b>	5 State and local ( <b>check only one box</b> ):		
	a. <input checked="" type="checkbox"/> Income taxes, or	5	3,456
	b. <input type="checkbox"/> General sales taxes	6	3,800
	6 Real estate taxes (see instructions) . . . . .	7	0
	7 Personal property taxes . . . . .	8	0
	8 Other taxes. List type and amount ▶		
	9 Add lines 5 through 8 . . . . .	9	7,256
<b>Interest You Paid</b>	10 Home mortgage interest and points reported to you on Form 1098 . . . . .	10	4,200
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11	0
	12 Points not reported to you on Form 1098. See instructions for special rules . . . . .	12	0
	13 Mortgage insurance premiums (see instructions) . . . . .	13	0
	14 Investment interest. Attach Form 4952 if required. (See instructions)	14	
	15 Add lines 10 through 14 . . . . .	15	4,200
<b>Gifts to Charity</b>	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . .	16	3,645
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500 . . . . .	17	0
	18 Carryover from prior year . . . . .	18	0
	19 Add lines 16 through 18 . . . . .	19	3,645
<b>Casualty and Theft Losses</b>	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.) . . . . .	20	0
<b>Job Expenses and Certain Miscellaneous Deductions</b>	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶ Form 2106	21	1,778
	22 Tax preparation fees . . . . .	22	
	23 Other expenses—investment, safe deposit box, etc. List type and amount ▶	23	0
	24 Add lines 21 through 23 . . . . .	24	1,778
	25 Enter amount from Form 1040, line 38 . . . . .	25	70,909
	26 Multiply line 25 by 2% (.02) . . . . .	26	1,418
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- . . . . .	27	360
<b>Other Miscellaneous Deductions</b>	28 Other—from list in the instructions. List type and amount ▶		
	Gambling Losses 900	28	900
<b>Total Itemized Deductions</b>	29 Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40 . . . . .	29	25,400
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here . . . . .		

KIA For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 2011

**SCHEDULE B**  
(Form 1040A or 1040)Department of the Treasury  
Internal Revenue Service (99)**Interest and Ordinary Dividends**▶ **Attach to Form 1040A or 1040.**▶ **See Instructions.**

OMB No. 1545-0074

**2011**Attachment  
Sequence No. **08**

Name(s) shown on return

Karl F Wheat

Your social security number

111-11-1111

**Part I****Interest**

- 1**
- List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions and list this interest first. Also, show that buyer's social security number and address ▶

G.E. Corporate Bonds  
Columbia National Bank  
State of Missouri(See instructions for  
Schedule B, and the  
instructions for  
Form 1040A, or  
Form 1040,  
line 8a.)**Note:** If you  
received a Form  
1099-INT, Form  
1099-OID, or  
substitute  
statement from  
a brokerage firm,  
list the firm's  
name as the  
payer and enter  
the total interest  
shown on that  
form.**Amount**1,100  
900  
0**1**

- 2**
- Add the amounts on line 1 . . . . .

**2**

2,000

- 3**
- Excludable interest on series EE and I U.S. savings bonds issued after 1989.
- 
- Attach Form 8815 . . . . .

**3**

- 4**
- Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form
- 
- 1040, line 8a . . . . . ▶

**4**

2,000

**Note:** If line 4 is over \$1,500, you must complete Part III.**Amount****Part II****Ordinary  
Dividends**

- 5**
- List name of payer ▶
- 
- Duke Energy

(See the instructions  
for Schedule B, and the  
instructions for  
Form 1040A, or  
Form 1040,  
line 9a.)**Note:** If you  
received a Form  
1099-DIV or  
substitute  
statement from  
a brokerage firm,  
list the firm's  
name as the  
payer and enter  
the ordinary  
dividends shown  
on that form.

600

**5**

- 6**
- Add the amounts on line 5. Enter the total here and on Form 1040A, or Form
- 
- 1040, line 9a . . . . . ▶

**6**

600

**Note.** If line 6 is over \$1,500, you must complete Part III.**Part III****Foreign  
Accounts  
and Trusts**(See  
instructions.)

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

- 7a**
- At any time during 2011, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions. . . . .

**Yes****No**

X

- If "Yes," are you required to file Form TD F 90-22.1 to report that financial interest or signature authority? See Form TD F 90-22.1 and its instructions for filing requirements and exceptions to those requirements . . . . .

X

- b**
- If you are required to file Form TD F 90-22.1, enter the name of the foreign country where the financial account is located ▶

- 8**
- During 2011, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions. . . . .

X

**KIA** For Paperwork Reduction Act Notice, see your tax return instructions.

Schedule B (Form 1040A or 1040) 2011

**SCHEDULE C  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Profit or Loss From Business**

(Sole Proprietorship)

- For information on Schedule C and its instructions, go to [www.irs.gov/schedulec](http://www.irs.gov/schedulec)  
 ► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2011**Attachment  
Sequence No. **09**

Name of proprietor Karl F Wheat		Social security number (SSN) 111-11-1111
A Principal business or profession, including product or service (see instructions) Insurance Claims Adjuster		B Enter code from instructions 524290
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN), (see instr.)
E Business address (including suite or room no.) ► 1202 Brentwood Avenue, Suite 326 City, town or post office, state, and ZIP code Columbia MO 65201		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►		
G Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses . . .		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
H If you started or acquired this business during 2011, check here . . .		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
I Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) . . .		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file all required Forms 1099? . . .		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Part I Income**

1a Merchant card and third party payments. For 2011, enter -0-	1a	0
b Gross receipts or sales not entered on line 1a (see instructions)	1b	82,000
c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. <b>Caution.</b> See instr. before completing this line . . .	1c	0
d <b>Total gross receipts.</b> Add lines 1a through 1c . . .	1d	82,000
2 Returns and allowances plus any other adjustments (see instructions)	2	
3 Subtract line 2 from line 1d . . .	3	82,000
4 Cost of goods sold (from line 42) . . .	4	0
5 <b>Gross profit.</b> Subtract line 4 from line 3 . . .	5	82,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	7,200
7 <b>Gross income.</b> Add lines 5 and 6 . . .	7	89,200

**Part II Expenses.****Enter expenses for business use of your home only on line 30.**

8 Advertising . . .	8		18 Office expense (see instructions) . . .	18	740
9 Car and truck expenses (see instructions) . . .	9	5,915	19 Pension and profit-sharing plans . . .	19	
10 Commissions and fees . . .	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, & equipment . .	20a	0
12 Depletion . . .	12		b Other business property . . .	20b	11,600
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . .	13	10,199	21 Repairs and maintenance . . .	21	
14 Employee benefit programs (other than on line 19) . . .	14		22 Supplies (not included in Part III) . . .	22	
15 Insurance (other than health) . . .	15	1,400	23 Taxes and licenses . . .	23	450
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.)	16a		a Travel . . .	24a	930
b Other . . .	16b		b Deductible meals and entertainment (see instructions) . . .	24b	875
17 Legal and professional services	17		25 Utilities . . .	25	4,300
			26 Wages (less employment credits) . .	26	
			27a Other expenses (from line 48) . . .	27a	398
			b <b>Reserved for future use</b> . . .	27b	
28 <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . .	28	36,807			
29 Tentative profit or (loss). Subtract line 28 from line 7 . . .	29	52,393			
30 Expenses for business use of your home. Attach <b>Form 8829</b> . Do <b>not</b> report such expenses elsewhere . . .	30	0			
31 <b>Net profit or (loss).</b> Subtract line 30 from line 29. • If a profit, enter on both <b>Form 1040, line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . If you entered an amount on line 1c, see instr. Estates and trusts, enter on <b>Form 1041, line 3</b> . • If a loss, you <b>must</b> go to line 32.	31	52,393			
32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both <b>Form 1040, line 12</b> , (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . If you entered an amount on line 1c, see the instructions for line 31. Estates and trusts, enter on <b>Form 1041, line 3</b> . • If you checked 32b, you <b>must</b> attach <b>Form 6198</b> . Your loss may be limited.			32a <input checked="" type="checkbox"/> All investment is at risk.		
			32b <input type="checkbox"/> Some investment is not at risk.		

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Schedule C (Form 1040) 2011

Schedule C (Form 1040) 2011

Karl

F Wheat

111-11-1111

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**Part III Cost of Goods Sold** (see instructions)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☐ No

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . . . .	35	
36 Purchases less cost of items withdrawn for personal use . . . . .	36	
37 Cost of labor. Do not include any amounts paid to yourself . . . . .	37	
38 Materials and supplies . . . . .	38	
39 Other costs . . . . .	39	
40 Add lines 35 through 39 . . . . .	40	0
41 Inventory at end of year . . . . .	41	
42 <b>Cost of goods sold.</b> Subtract line 41 from line 40. Enter the result here and on line 4 . . . . .	42	0

**Part IV Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ► \_\_\_\_\_

44 Of the total number of miles you drove your vehicle during 2011, enter the number of miles you used your vehicle for:

a Business \_\_\_\_\_ b Commuting (see instructions) \_\_\_\_\_ c Other \_\_\_\_\_

45 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

**Part V Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

Coffee Service	280
Magazine Subscriptions	90
Business Gift	28
48 <b>Total other expenses.</b> Enter here and on line 27a . . . . .	48 398

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Schedule C (Form 1040) 2011

**SCHEDULE D  
(Form 1040)**Department of the Treasury  
Internal Revenue Service (99)**Capital Gains and Losses**▶ **Attach to Form 1040 or Form 1040NR.** ▶ **See instructions for Schedule D (Form 1040).**  
▶ **Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.**

OMB No. 1545-0074

**2011**Attachment  
Sequence No. **12**

Name(s) shown on return

Karl F Wheat

Your social security number

111-11-1111

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

Complete Form 8949 before completing line 1, 2, or 3.

This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 2, column (e)	(f) Cost or other basis from Form(s) 8949, line 2, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 2, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
<b>1</b> Short-term totals from all Forms 8949 with <b>box A</b> checked in <b>Part I</b> . . . . .	0	( 0 )	0	0
<b>2</b> Short-term totals from all Forms 8949 with <b>box B</b> checked in <b>Part I</b> . . . . .	0	( 0 )	0	0
<b>3</b> Short-term totals from all Forms 8949 with <b>box C</b> checked in <b>Part I</b> . . . . .	0	( 0 )	0	0
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . .			<b>4</b>	0
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .			<b>5</b>	
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss</b> <b>Carryover Worksheet</b> in the instructions. . . . .			<b>6</b>	( 0 )
<b>7</b> <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on next page . . . . .			<b>7</b>	0

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

Complete Form 8949 before completing line 8, 9, or 10.

This form may be easier to complete if you round off cents to whole dollars.

	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
<b>8</b> Long-term totals from all Forms 8949 with <b>box A</b> checked in <b>Part II</b> . . . . .	0	( 0 )	0	0
<b>9</b> Long-term totals from all Forms 8949 with <b>box B</b> checked in <b>Part II</b> . . . . .	0	( 0 )	0	0
<b>10</b> Long-term totals from all Forms 8949 with <b>box C</b> checked in <b>Part II</b> . . . . .	37,200	( 41,500 )	0	-4,300
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .			<b>11</b>	0
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .			<b>12</b>	
<b>13</b> Capital gain distributions. See the instructions . . . . .			<b>13</b>	0
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss</b> <b>Carryover Worksheet</b> in the instructions . . . . .			<b>14</b>	( 0 )
<b>15</b> <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (h). Then go to Part III on page 2 . . . . .			<b>15</b>	-4,300

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Schedule D (Form 1040) 2011

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result . . . . .</p> <ul style="list-style-type: none"> <li>• If line 16 is a <b>gain</b>, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.</li> <li>• If line 16 is a <b>loss</b>, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> <li>• If line 16 is <b>zero</b>, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul> <p><b>17</b> Are lines 15 and 16 <b>both</b> gains?</p> <p><input type="checkbox"/> <b>Yes.</b> Go to line 18.</p> <p><input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p> <p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> in the instructions . . . . . ▶</p> <p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions . . . . . ▶</p> <p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?</p> <p><input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <b>Do not</b> complete lines 21 and 22 below.</p> <p><input type="checkbox"/> <b>No.</b> Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Do not</b> complete lines 21 and 22 below.</p> <p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p><b>22</b> Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?</p> <p><input checked="" type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).</p> <p><input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040 and Form 1040NR.</p>	<p><b>16</b></p> <p><b>18</b></p> <p><b>19</b></p> <p><b>21</b></p>	<p>-4,300</p> <p></p> <p></p> <p>( 3,000 )</p>
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