

Chapter 10 Summary of End-of-Chapter Problem Revisions

2014 Edition Problem Number	2013 Edition Problem Number	2014 Edition Modifications
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19	19	Problem updated
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24	24	Problem updated
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34	34	Solution updated
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Solutions to Chapter 10 Problem Assignments

Check Your Understanding

1. *Liability Insulation*

Solution: C corporations, S corporations and limited liability companies insulate their owners from the general liabilities of the entity; a limited partner is insulated from partnership liabilities beyond the actual or agreed upon invested capital.

2. *LLP vs. LLC*

Solution: The partners in an LLP can be held liable for the general partnership debts; the members of an LLC are insulated from the general liabilities of the business.

3. *Health Insurance Premiums*

Solution: Gem will deduct the cost of the health insurance for the two employees from its business income (\$4,800 for the year); it cannot deduct the cost for the owner. Instead, the owner will deduct the \$2,400 cost as a deduction for adjusted gross income on his or her personal tax return.

4. *Entity Liabilities*

Solution: The owner of a sole proprietorship and the general partners in a general partnership are all fully liable for the obligations of the business. Only the general partner(s) in a limited partnership are personally liable for the obligations of the limited partnership; the limited partners are only liable for the amount of their partnership contribution. Partners in an LLP are liable for the general obligations of the partnership but not for the acts of the other partners. The members of an LLC and the S corporation shareholders are protected from the general liabilities of these businesses.

5. *Partnership Liabilities*

Solution: Recourse debt undertaken by a partnership increases a general partner's basis in his or her partnership interest for his or her share of the liability determined by the loss-sharing ratio. When the recourse debt is paid off, his or her basis is reduced for the share of the liability discharged. Recourse liabilities do not affect the bases of limited partners.

Nonrecourse debt undertaken by a partnership increases both the general and limited partners' bases in their partnership interests in their profit-sharing ratio. When the nonrecourse debt is paid off, their bases are reduced for their share of the liability discharged.

6. *S Corporation Liabilities*

Solution: No. Liabilities of a partnership increase one or more partner's basis in the partnership interest, based on the type of debt (recourse or nonrecourse) and type of partner (general or limited). Liabilities of an S corporation, however, have no effect on a shareholder's basis in his or her stock.

7. *Loss Deductions*

Solution: First, to fully deduct their share of partnership losses, partners must have basis in their partnership interest equal to or greater than their share of the loss; if the basis is less, only a loss amount up to this lesser basis may be deducted after considering the at-risk and passive loss limitations. Second, this potentially deductible loss is compared to the amount that the partner has at risk. If this potentially deductible amount is more than the partner's at-risk basis, the potentially deductible amount is further limited to the amount the partner has at-risk. Finally the potentially deductible loss amount that has passed these first two hurdles may be further limited by the passive loss limitation rules. These rules normally limit the deductibility of passive losses to the extent the taxpayer has passive income. The nondeductible excess losses can be carried forward to future years.

8. *Flow-Through Income Reporting*

Solution: Partnerships and S corporations separately state certain items on the Schedule K because the owners must treat these items in specific ways such as applying limitations or being required to combine them with other like items to determine their final disposition and taxation. Capital gains and losses, dividends, investment interest, charitable contributions, and Section 179 expenses are examples of items that must be separately stated.

9. *Income Allocation*

Solution: S corporation income and loss items are first allocated to each day of the corporation's tax year; then they are allocated to the shareholders based on their percentage ownership on each day of the year.

Example: An S corporation has \$36,500 of income and it has two shareholders, one owning 40 percent and the other 60 percent. The corporation's income is first allocated to each day at \$100 per day. The 40 percent owner is then allocated \$40 of each day's income and the 60 percent owner is allocated \$60. The 40 percent is allocated a total of \$14,600 ($\40×365) of income and the 60 percent owner is allocated \$21,900 ($\60×365) of income.

10. *S Corporation Restrictions*

Solution: The S corporation must be a domestic corporation; it can have only one class of stock outstanding and it can have no more than 100 shareholders (with certain related shareholders and spouses counted as only one shareholder). The shareholders must be individuals or certain trusts or estates. (No corporate or partnership shareholders are permitted.) The individuals must be either citizens or residents of the United States (no nonresident alien shareholders are permitted).

11. *S Corporation Elections*

Solution: A retroactive election is an election that is made by the 15th day of the third month of the corporation's tax year and is effective from the beginning of the tax year. The prospective election is an election that is made at any time during the tax year but which will not be effective until the beginning of the next (or a later) tax year as specified in the election.

12. *Terminating Event*

Solution: A terminating event is any event that violates the corporate or shareholder restrictions on an S corporation and which can cause the termination of the S corporation election.

13. *Loss Limitations*

Solution: Because debt of an S corporation has no effect on a shareholder's stock basis, a shareholder's basis in his stock is normally equal to the amount he or she is at risk.

14. *AAA*

Solution: If in a future year, the S election terminates, the amount in the accumulated adjustments account is the measure of the amount a C corporation that was previously an S corporation can distribute in cash to its shareholders during its post-termination period without receiving dividend treatment for the distribution.

15. *S Corporation Taxes*

Solution: S corporations are subject to the BIG (built-in gains) tax, excess net passive investment income tax, and the LIFO recapture tax. The BIG and LIFO recapture taxes are only levied on S corporations that were previously C corporations with appreciated assets and appreciated inventory, respectively. The excess passive investment income tax applies to S corporations that have earnings and profits from a prior C corporation year and whose passive income exceeds a threshold based on its total revenue.

Crunch the Numbers

16. *Sole Proprietorship Income*

Solution: Schedule C net income = \$125,000 - \$40,000 - \$3,000 - \$7,000 - \$3,000 - \$1,000 = \$71,000.

The dividend and interest income will be reported on Mason's Schedule B of his Form 1040; the charitable contribution will be included with his personal charitable contributions and reported as an itemized deduction if he itemizes; the political contribution is nondeductible.

17. *Partnership Income*

Solution: The \$71,000 (\$125,000 - \$40,000 - \$3,000 - \$7,000 - \$3,000 - \$1,000) of items that make up net income on Schedule C in the preceding problem will all be reported as net income on Form 1065. The dividends, interest and charitable contributions will be reported on Schedule K (Form 1065) as separately stated items and the political contribution will be reported as a nondeductible item. John and Mary will each receive a Schedule K-1 reporting their shares of the net income, separately stated items, and nondeductible item. These will then be included in their Form 1040, with dividends and interest income on Schedule B and the charitable contributions included with other charitable contributions and reported as an itemized deduction.

18. *S Corporation Income*

Solution: The business's \$71,000 of net income (\$125,000 - \$40,000 - \$3,000 - \$7,000 - \$3,000 - \$1,000) will be reported as net income on Form 1120S. The dividends, interest and charitable contributions will be reported on Schedule K (Form 1120S) as separately stated items and the political contribution will be reported as a nondeductible item. John will receive a Schedule K-1 detailing these items for inclusion on his Form 1040. The dividends and interest income will be included on Schedule B and the charitable contribution included with other charitable contributions and reported as an itemized deduction.

19. *Sole Proprietorship Income*

Solution: Net income: \$13,200 - \$800 - \$150 = \$12,250. Self-employment tax: \$12,250 x 92.35% x 15.3% = \$1,731. She would be allowed to deduct the employer portion (\$12,250 x 92.35% x 7.65% = \$865) of the self-employment tax for AGI. She should be eligible to take a dependent care credit based on the \$1,100 of child care expense and the AGI reported on her return. (See Chapter 11 for information on the dependent care credit.)

20. *Personal Property Converted to Business Use*

Solution: Julie will use the fair market value of the computer at conversion as the basis for business use as this is less than the computer's basis. To determine gain or loss on a subsequent disposition, however, she should keep the depreciation schedule based on the \$3,000 and the \$1,000. The \$3,000 less depreciation basis will be used to determine gain, but the \$1,000 less depreciation basis will be used to determine loss on a future disposition.

21. *Partnership Operations*

Solution: a. There are no tax consequences to Zoe for the contribution of property to the partnership. Her partnership interest will have a \$50,000 basis, the same basis she had in the property transferred.
 b. The partnership has no tax consequences; it simply takes a \$50,000 basis in the property transferred from Zoe.
 c. Jim's basis = \$75,000; Angie's basis = \$75,000; Zoe's basis = \$50,000.
 d. The partnership has a \$150,000 basis in the money contributed and a \$50,000 basis in the property.

22. *Partnership Operations*

Solution: a. Partnership net income is \$21,000 (\$150,000 - \$95,000 - \$15,000 - \$15,000 - \$4,000). Each partner reports \$10,500 (50% x \$21,000).
 b. Each partner's share of the Section 1231 gain will be included with any other Section 1231 gains and losses in the Section 1231 gain and loss netting process. Each partner's share of the charitable contribution will be included with his or her other charitable contributions and reported as an itemized deduction.
 c. George's basis at year end: \$80,000 + (50% x \$21,000) + (50% x \$2,000) - (50% x \$1,000) = \$91,000.

Georgenne's basis at year end: $\$60,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$71,000$.

*Note that related payroll taxes are assumed to be included with the salaries.

23. S Corporation Operations

Solution: a. S corporation net income is \$21,000 ($\$150,000 - \$95,000 - \$15,000 - \$15,000 - \$4,000$). George and Georgenne will each report \$10,500 ($\$21,000 \times 50\%$) of net income at the end of the year.

b. George and Georgenne will include their individual shares of the Section 1231 gain with their other Section 1231 gains and losses for the Section 1231 netting process. Their share of the charitable contribution will be included with other charitable contributions and reported as an itemized deduction.

c. George's basis at year end: $\$80,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$91,000$.

Georgenne's basis at year end: $\$60,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$71,000$.

24. Self-Employment Taxes

Solution: a. Bob will pay FICA of \$11,054. $\$90,000 [(50\% \times \$80,000 \text{ net income}) + \$50,000 \text{ salary (guaranteed payment)}]$ is subject to self-employment taxes. The \$20,000 withdrawal does not affect self-employment taxes. Bob will pay \$12,717 ($\$90,000 \times .9235 \times .153$) in FICA taxes on this income.

b. \$3,825 will be paid by Bob ($\$50,000 \times .0765$) and the corporation will also pay \$3,825 ($\$50,000 \times .0765$) in FICA taxes on the \$50,000 salary, a total of \$7,650 ($\$3,825 + \$3,825$). Neither the \$40,000 of income after the salary payment nor the \$20,000 withdrawal is subject to FICA taxes.

25. Partnership Formation

Solution: a. No gain or loss recognized by Alpha or Beta. Gamma recognizes \$10,000 of income for services performed.

b. Alpha's basis is \$25,000 ($\$10,000 + \$15,000$). Beta's basis is \$35,000. Gamma's basis is \$30,000 ($\$20,000 + \$10,000$).

c. Basis in cash = \$30,000; machinery = \$15,000; land = \$35,000; the services will have a basis of \$10,000 if capitalized; if they are expensed, there would be no basis remaining.

26. Sale of Contributed Property

Solution: The sale of the land results in a loss of \$8,000 ($\$27,000 - \$35,000$). The first \$5,000 of loss is allocated to the contributing partner (Beta) as the loss had accrued prior to its transfer to the partnership. The remaining \$3,000 loss is divided equally between the 3 partners, each being allocated \$1,000 of the total loss. Thus, Alpha and Gamma each have a \$1,000 loss and Beta a \$6,000 ($\$5,000 + \$1,000$) loss passed through.

27. *Liability Allocations*

Solution: Recourse liabilities increase the basis of general partners only based on their loss-sharing ratio. Nonrecourse liabilities increase the basis of both general and limited partners based on their profit-sharing ratio. The \$100,000 of recourse liabilities will be allocated entirely to Matt as the only general partner and his basis will increase by the \$100,000 allocated liability. The \$60,000 of nonrecourse liabilities will be allocated as follows: \$12,000 ($20\% \times \$60,000$) to Matt, bringing his total allocated liabilities to \$112,000; \$24,000 ($40\% \times \$60,000$) to each of the two limited partners.

28. *Liability Allocations*

Solution: a. All \$100,000 of the recourse note is allocated to Carol, the only general partner.
 b. The \$50,000 nonrecourse note is allocated based on the profit-sharing ratio as follows: Carol \$25,000 ($50\% \times \$50,000$); Charles \$12,500; Charlotte \$12,500 ($25\% \times \$50,000$).
 c. If the three were all general partners, the answer to a. would change as follows: Carol would be allocated \$25,000 of the \$100,000 recourse liability; Charles would be allocated \$40,000; and Charlotte would be allocated \$35,000 as the allocations would be based on their loss-sharing ratio. The answer to b. would not change.

29. *Partnership Operations*

Solution: a. $\$110,000 - \$75,000 - \$18,000 - \$20,000 - \$3,000 = \$6,000$ net loss; each partner is allocated \$3,000 of this loss.
 b. Each partner's share of the charitable contribution is included with his or her own charitable contributions if itemizing and the Section 1231 gain is included with other Section 1231 gains and losses and becomes part of the Section 1231 netting process. The tax-exempt interest is reported on page 1 of Form 1040 but it would not be included in partners' ordinary income.
 c. Each partner's basis at year end would decrease by \$1,750 [$50\% (-\$6,000 + \$2,000 + \$1,000 - \$500)$]. Thus Luis's basis would be \$78,250 ($\$80,000 - \$1,750$) and Jennifer's would be \$58,250 ($\$60,000 - \$1,750$).
 d. The value of Luis's property contributed (\$80,000) would have been equal to the adjusted basis of the property at the time of the contribution; he takes this \$80,000 basis as his basis in his partnership interest. Jennifer's basis in the property contributed must have been \$60,000—the amount of her adjusted basis--and that becomes her substituted basis in her partnership interest.

30. *Loss Deductions*

Solution: Year 1: Sally's beginning basis in her interest is \$55,000 [$\$45,000 + (10\% \times \$100,000)$]. She is at risk, however, for only her \$45,000 initial investment. The \$31,000 loss reduces her basis to \$24,000 and her at-risk amount to \$14,000, although she will not be allowed to deduct any of the loss. Because she is a limited partner, this is a passive investment and she must have passive income against which to deduct the loss. As a result, it is held in suspense until she has passive income in future years.

Year 2: First, Sally's basis is increased to \$45,000 ($\$24,000 + \$21,000$) by the \$21,000 income in year 2 and her at-risk amount is increased to \$35,000 ($\$14,000 + \$21,000$). She can now deduct \$21,000 of the passive loss held in suspense against this \$21,000 of income. This reduces her passive loss held in suspense to \$10,000 ($\$31,000 - \$21,000$). The net effect on her taxable income is zero. (Her basis and at-risk amounts remain at \$45,000 and \$35,000, respectively, as they were reduced for the loss in the prior year.)

Year 3: Sally first increases her basis to \$49,000 ($\$45,000 + \$4,000$) and her at-risk amount to \$39,000 ($\$35,000 + \$4,000$) for the \$4,000 of income. She then deducts \$4,000 of her \$10,000 remaining suspended passive loss against this income, reducing the suspended passive loss amount to \$6,000. The net effect on her income again is zero.

Year 4: Sally first includes the \$8,000 in income; this increases her basis to \$57,000 ($\$49,000 + \$8,000$) and her at-risk amount to \$47,000 ($\$39,000 + \$8,000$). She deducts the remaining \$6,000 of her suspended passive loss against this income, reducing her suspended passive losses to zero. The net effect is a \$2,000 increase in her income.

Year 5: Sally reduces her basis to \$35,000 for the \$22,000 loss. Her at-risk amount is also reduced to \$25,000. The 22,000 loss is suspended due to the passive loss limitations.

Year 6: When Sally sells her partnership interest for \$50,000 (\$40,000 sales proceeds and \$10,000 debt relief), she has a gain on the sale of \$15,000 because her basis in the partnership is \$35,000. She can now deduct the \$22,000 passive loss that was suspended in year 5 due to the passive loss limitations against this gain because this is a complete disposition of her interest.

31. *Partnership Distributions*

- Solution:** a. There is no gain or loss recognized on the distribution of the land to Partner X. Instead, Partner X has a basis of \$25,000 in the land and the distribution reduces his basis in his partnership interest to \$20,000 ($\$45,000 - \$25,000$). Any gain on a subsequent sale will be recognized only by Partner X.
- b. The partnership will have a realized and recognized gain of \$5,000 ($\$30,000 - \$25,000$) on the sale of the land. The gain will be allocated one-third to each of the partners increasing Partner X's basis by \$1,667 ($\$5,000 \times 1/3$) to \$46,667. Partner X receives \$30,000 cash, which reduces his basis in his partnership interest to \$16,667 ($\$46,667 - \$30,000$).
- c. If the gain on the land had accrued while all the partners had held their partnership interest, the partnership should sell the land and recognize the \$5,000 gain, passing one-third through to each partner as a matter of equity. For the partners other than X, it would be better for the partnership to distribute the land to X as X would then have to recognize the entire \$5,000 gain, relieving the other two partners' of their share of the gain and the taxes thereon. If the property had been contributed by one of the partners with the \$5,000 gain built-in, the partnership should definitely sell the land rather than distribute it as that gain would have to be assigned to the contributing partner.

32. *Partnership Distributions*

- Solution:** a. There is no gain or loss recognized on the distribution of the land to Maria. Maria will take a \$50,000 basis in the land and her basis in the partnership interest is reduced to \$5,000 (\$55,000 - \$50,000). She will realize the loss on the subsequent sale of the land assuming she does not convert the land to personal use (e.g., building a personal residence on the land).
- b. The partnership will have a realized and recognized loss on the sale of the land of \$23,000, which will be allocated to the partners based on their loss-sharing ratios. Maria will be allocated a loss of \$5,750, reducing her basis to \$49,250 (\$55,000 - \$5,750). She will then receive \$27,000 in cash, which will reduce her basis in her partnership interest to \$22,250 (\$49,250 - \$27,000).
- c. Maria should definitely insist on the sale of the land and the distribution of the proceeds rather than accepting a distribution of the land. If she takes the land, which will most likely be a capital asset in her hands (as an investment), it will have a carryover basis of \$50,000 and a value of only \$27,000. If she sells it, the \$23,000 loss will be a capital loss and she will be limited to deducting \$3,000 a year against her other income (unless she has other capital gains). If the land does not qualify as an investment asset, but becomes a personal use asset, any loss on a future sale would not be deductible.

33. *S Corporation Basis*

- Solution:** a. Charles's share of the loss is \$15,000 (\$60,000 x 25%) and the basis in his stock is \$1,000 (\$16,000 - \$15,000 share of the corporation's loss). His basis in his debt remains \$10,000.
- b. Charles's share of the loss is \$22,500 (\$90,000 x 25%) and the basis in his stock is reduced to zero by \$16,000 of the loss; his basis in his debt is reduced to \$3,500 (\$10,000 - \$6,500).
- c. Charles's share of the loss is \$30,000 (\$120,000 x 25%) and the bases of both his stock and debt are reduced to zero. He is able to deduct only \$26,000 of the loss as a result. The remaining \$4,000 loss is suspended and cannot be deducted until he again has either debt or stock basis.

34. *Shareholder-Employee Considerations*

- Solution:** There is a tax advantage equal to \$366 using the S corporation rather than a C corporation.

Employment taxes: Both an S and a C corporation pay FICA and unemployment taxes for the shareholder of \$6,158 [(\$75,000 x 7.65%) + (\$7,000 x 6%)]. The shareholder-employee will have \$5,738 (\$75,000 x 7.65%) in FICA taxes deducted from his salary.

S corporation: Net income = \$100,000 - \$75,000 - \$6,158 = \$18,842. This is passed through the shareholder-employee and taxed along with the \$75,000 salary.

Shareholder-employee: Income = \$75,000 + \$18,842 = \$93,842. Taxable income = \$93,842 - \$3,900 - \$6,100 = \$83,842. Tax on \$83,842 = \$4,991.25 + [(\$83,842 - \$36,250) 25%] = \$16,889.

Total taxes = \$6,158 + \$5,738 + \$16,889 = \$28,785 on the \$100,000 of income (a total tax rate of 28.8%).

C corporation: Net income = \$18,842; $\$18,842 \times 15\% = \$2,826$ tax.

Shareholder-employee income = \$75,000 + \$15,000 dividend = \$90,000. Taxable income = \$90,000 - \$3,900 - \$6,100 = \$80,000. Tax on \$15,000 dividend income = \$2,250 ($\$15,000 \times 15\%$). Tax on the remaining \$65,000 ($\$80,000 - \$15,000$ dividend) = $\$4,991.25 + [(\$65,000 - \$36,250) 25\%] = \$12,178.75$; $\$2,250 + \$12,178.75 = \$14,428.75$.

Total taxes = \$6,158 + \$5,738 + \$2,826 + \$14,429 = \$29,151 on the \$100,000 of income with a \$15,000 dividend distribution to the shareholder-employee (a total tax rate of 29.2%). There is a tax advantage of \$366 ($\$28,785 - \$29,151$) using the S corporation rather than a C corporation.

35. S Corporation Allocations

Solution: Daily allocation of \$50,000 = \$136.99 per day.

Lisa: $(50\% \times 120 \times \$136.99) + (25\% \times 245 \times \$136.99) = \$16,610$.

Shelley $(25\% \times 245 \times \$136.99) = \$8,391$.

Marie $(50\% \times 220 \times \$136.99) = \$15,069$.

George $(50\% \times 145 \times \$136.99) = \$9,932$.

36. S Corporation Operations

Solution: Net income from operations is \$100,000 ($\$280,000 - \$130,000 - \$30,000 - \$18,000 - \$2,000$). The Section 1231 loss and the interest income from the bonds are passed through separately. The traffic fines are nondeductible.

37. Passive Investment Income Tax

Solution: No. The corporation must have C corporate earnings and profits to be liable for this tax. As the corporation has been an S corporation from its beginning, it is unlikely it has any C corporation earnings and profits.

38. S Corporation Distributions

Solution: The AAA is reduced to \$11,000 and Shareholder A's stock basis is \$12,000 and B's is \$20,000.

The corporation must recognize the \$5,000 gain ($\$10,000$ FMV - \$5,000 basis) on the distribution of the land to A but it cannot recognize the loss on the distribution of the equipment to B. In addition, a specific priority must be followed for the adjustments to the AAA: taxable net income and separately stated income items are added first; the fair market values of distributions reduce AAA next, followed by nondeductible and deductible expense and loss items. Thus, the \$6,000 net income and the \$5,000 gain on the land increase the AAA to \$46,000. The \$30,000 fair market value of the distributions ($\$10,000$ cash + $\$10,000$ land + $\$10,000$ equipment) reduces the corporation's AAA to \$16,000; the \$5,000 nondeductible loss further reduces the AAA to \$11,000.

Shareholder basis adjustments follow the same priority order:

Shareholder A's basis: $\$24,000 + \$3,000$ ($50\% \times \$6,000$ income) + $\$2,500$ ($50\% \times \$5,000$ gain) = \$29,500 basis before reduction for the property distributions. The

\$15,000 fair market value of the land and cash distributed to her reduce her basis to \$14,500. The \$2,500 (50% x \$5,000) of the nondeductible loss reduces her stock basis to \$12,000.

Shareholder B's basis: $\$32,000 + \$3,000 (50\% \times \$6,000 \text{ income}) + \$2,500 (50\% \times \$5,000 \text{ gain}) = \$37,500$ basis before reduction for the property distributions. The \$15,000 fair market value of equipment and cash distributed to him reduces his basis to \$22,500. \$2,500 of the \$5,000 unrecognized loss reduces his stock basis to \$20,000.

39. Corporate Liquidation and Distributions

Solution: PA Corporation: The corporation realizes and recognizes a loss of \$4,000 (\$6,000 - \$10,000) on Asset 1, a gain of \$8,000 (\$12,000 - \$4,000) on Asset 2, and a gain of \$1,000 (\$10,000 - \$9,000) on Asset 3 for a net gain of \$5,000. It has a total gain on the liquidation, including its operating loss, of \$2,500 (\$5,000 - \$2,500). The corporation has \$28,000 (\$6,000 + \$12,000 + \$10,000) cash to distribute to the shareholders and each will receive \$14,000.

Shareholder P. Her \$4,000 basis is increased to \$5,250 by one-half of the corporation's net gain $[(\$5,000 - \$2,500) \times 50\%]$ which the shareholder must recognize. The \$14,000 distribution reduces basis to zero and the shareholder has an \$8,750 (\$14,000 - \$5,250) gain on the liquidation.

Shareholder A. His \$20,000 basis is increased to \$21,250 for the net gain $[(\$5,000 - \$2,500) \times 50\%]$ the shareholder must recognize. The \$14,000 distribution reduces the basis to \$7,250. The shareholder will recognize a \$7,250 loss on the liquidation of the corporation in addition to the gain passed through to him.

40. S Corporation Operations

Solution: a. $\$2,000,000 - \$900,000 - \$600,000 - \$200,000 - \$60,000 - \$40,000 = \$200,000$ taxable income; separately stated items are the \$8,000 dividend income, the \$10,000 Section 1231 gain, the \$12,000 charitable contribution, and the \$20,000 Section 179 expense. The \$2,000 tax-exempt bond interest will also be reported to the shareholders but will not be taxable.

b. Financial accounting income: \$2,016,000 total revenues (\$2,000,000 + \$2,000 + \$8,000 + \$6,000); \$1,804,000 deductions (\$900,000 + \$600,000 + \$200,000 + \$60,000 + \$32,000 + \$12,000); \$212,000 net income (\$2,016,000 - \$1,804,000).

c. Schedule M-1:

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return					
1	Net income (loss) per books.	212,000	5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize): excess 1231 gain	4,000	a	Tax-exempt interest \$ 2,000	2,000
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$ 28,000	28,000
b	Travel and entertainment \$		7	Add lines 5 and 6.	30,000
4	Add lines 1 through 3.	216,000	8	Income (loss) (Schedule K, line 17e). Line 4 less line 7	186,000

\$186,000 is the comparable taxable income when separately stated items, including dividend income, Section 1231 gain, the charitable contribution, and the Section 179 expense, are included with ordinary income.

41. *Comprehensive Problem*

Solution: Depreciation on asset sales must be determined first:

Ford Truck: $\$12,500 \times .1920 \times .5 = \$1,200$

2011 Machines: $\$60,000 \times .1749 = \$10,494$

2012 Machines: $\$65,000 \times .2449 = \$15,919$

2013 Machines: $\$35,000 \times .1785 = \$6,248$ (mid-quarter convention)

New Truck: $\$24,000 \times .05 = \$1,200$ (mid-quarter convention)

Net Income:

Rental Income	\$ 20,000	
Sales of Products	288,000	
Total Revenue		\$308,000

Expenses:

Cost of Sales	\$121,000	
Truck Expense	14,000	
Telephone	600	
Rent Expense	2,400	
Part-time Delivery Person	25,000	
Machine Repairs	5,500	
50% of Meals and Entertainment	2,000	
Liability Insurance	12,000	
Depreciation	35,061	
Business Use of Home $[(400/1800) \times \$24,600]$	5,467	
Total Deductible Expenses		<u>\$223,028</u>
Net Income		\$ 84,972

Items not included on Schedule C:

Truck sale: Basis = $\$12,500 \times (1 - [.2 + .32 + (.5 \times .1920)]) = \$4,800$

\$5,000 selling price - \$4,800 basis = \$200 Section 1245 gain reported on Form 1040 from Form 4797.

The charitable contribution of \$10,000 is included with his other charitable contributions and is an itemized deduction on Schedule A.

Self-employment tax: $\$84,972 \times .9235 \times .153 = \$12,006$; the employer's portion of this tax ($\$84,972 \times .9235 \times .0765 = \$6,003$) is deductible for AGI on page 1 of Form 1040.

Note: The part-time delivery person's cost includes payroll taxes.

Think Outside the Text

These questions require answers that are beyond the material that is covered in this chapter.

42. *Sole Proprietorship*

Solution: From a legal standpoint, the sole proprietorship cannot be separated from the owner. The tax law follows this basic premise that they cannot be separated. The

reporting of operations on a separate form rather than the schedule within the Form 1040 would imply a separation that does not exist.

43. *LLCs*

Solution: Because of the differences in the manner in which LLC characteristics were prescribed by different states, many disagreements arose over whether the LLC was a partnership or a corporation. To eliminate the uncertainty of treatment, members may elect the desired form.

44. *Services Contributions*

Solution: There are numerous definitions of what constitutes property—realty and personalty; tangible and intangible; ordinary, capital, and Section 1231. None of these include services—actions carried out by individuals acting for themselves or as employees of a business. Although receiving an interest in a business for services is similar to being paid for those services and then contributing the money in exchange for the business interest, the two steps simply cannot be combined to include services as part of the property received. Additionally, individuals have no basis in the property received for those services until they are taxed on the services; for most other property interests, however, individuals do have basis in the property whether acquired by purchase or gift. This separate treatment of services prevents the rendering of services from escaping ordinary income taxation.

45. *Limitations on S Corporations*

Solution: Because the net income and separately stated items are passed through to the shareholders based on their ownership percentages on a per day, per share basis; the addition of a second class of stock would complicate the manner in which these items are allocated to the shareholders as the income would have to first be divided between the classes of stock—an allocation that could be arbitrarily made to the detriment of some shareholders and to the advantage of others. As is, a shareholder owning one percent gets exactly the same amount of income/loss items as every other shareholder owning one percent.

46. *Distributions*

Solution: A partnership recognizes neither gain nor loss on nonliquidating or liquidating distributions of appreciated or depreciated property to the partners. S corporations recognize gain but not loss on nonliquidating distributions, but recognize both gain and loss on liquidating distributions.

Identify the Issues

Identify the issues or problems suggested by the following situations. State each issue as a question.

47. *Fringe Benefits*

Solution: What are the tax consequences of the corporation providing these fringe benefits for the family? Are they tax free to the family?

48. *Acquisition by S Corporation*

Solution: What are the tax consequences to the S corporation of acquiring 85 percent of a C corporation?

49. *Sales of Partnership Interests*

Solution: Are there any tax problems created by these various sales of partnership interests within this relatively short period of time? What are the tax consequences of these sales?

50. *Abandoning a Partnership Interest*

Solution: Does Shana recognize any gain or loss as a result of her abandonment of her partnership interest?

51. *Purchase of Land from Partner*

Solution: What are the tax consequences that would result from a sale of the land by Carol to the partnership?

Develop Research Skills

Solutions to research problems are included in a separate file.

Search the Internet55. *Tax Forms for Sole Proprietorship*

Solution: Filled-in forms for 2012 are included at the end of this file. Note: Neither Form 8829 nor Schedule D (Form 1040) is required. Forms for 2013 have not yet been released.

Depreciation on asset sales must be determined first:

Ford Truck: $\$12,500 \times .1920 \times .5 = \$1,200$

Year 1 Machines: $\$60,000 \times .1749 = \$10,494$

Year 2 Machines: $\$65,000 \times .2449 = \$15,919$

Year 3 Machines: $\$35,000 \times .1785 = \$6,248$ (mid-quarter convention)

New Truck: $\$24,000 \times .05 = \$1,200$ (mid-quarter convention)

Net Income:

Rental Income	\$ 20,000	
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\$5,000 selling price - \$4,800 basis = \$200 Section 1245 gain reported on Form 1040 from Form 4797.

The charitable contribution of \$10,000 is included with his other charitable contributions and is an itemized deduction on Schedule A.

Self-employment tax is \$10,437 ($\$84,972 \times .9235 \times .133$) at the reduced 2012 rate; the employer's portion of this tax ($\$84,972 \times .9235 \times .0765 = \$6,002$) is deductible for AGI on page 1 of Form 1040.

Note: The cost of the part-time delivery person includes applicable payroll taxes.

56. Tax Forms for Partnership and S Corporation

Solution: Filled-in forms for 2012 are included at the end of this file. Forms for 2013 have not yet been released.

a. Partnership net income is \$21,000 ($\$150,000 - \$95,000 - \$15,000 - \$15,000 - \$4,000$). Each partner reports \$10,500 ($50\% \times \$21,000$).

Each partner's share of the Section 1231 gain will be included with any other Section 1231 gains and losses in the Section 1231 gain and loss netting process. Each partner's share of the charitable contribution will be included with his or her other charitable contributions and reported as an itemized deduction.

George's basis at year end: $\$80,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$91,000$.

Georgenne's basis at year end: $\$60,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$71,000$.

b. S corporation net income is \$21,000 ($\$150,000 - \$95,000 - \$15,000 - \$15,000 - \$4,000$). George and Georgenne will each report \$10,500 ($\$21,000 \times 50\%$) of net income at the end of the year.

George and Georgenne will include their individual shares of the Section 1231 gain with their other Section 1231 gains and losses for the Section 1231 netting process. Their share of the charitable contribution will be included with other charitable contributions and reported as an itemized deduction.

George's basis at year end: $\$80,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$91,000$.

Georgenne's basis at year end: $\$60,000 + (50\% \times \$21,000) + (50\% \times \$2,000) - (50\% \times \$1,000) = \$71,000$.

57. LLC Filing Requirements

Solution: Answers will vary by state.

58. State Tax Issues

Solution: Answers will vary by state.

59. S Corporation Issues

Solution: Form 2553 is the form used to elect S corporation status. Information required on this form includes: The corporation's name, address, identification number, date

incorporated, state of incorporation, tax year, the effective date of election, and the selected tax year. The name and title of an officer or legal representative who IRS can call for additional information and his or her telephone number must be provided. The corporation must supply the names of all of the shareholders with their signature of consent to the S election, the date, their number of shares, date(s) acquired, their Social Security numbers, and the date of each shareholder's tax year end. It must be signed by a corporate officer.

The instructions for Form 1120S state that elections made after the due date will be accepted as timely filed if the corporation can show that the failure to file on time was due to reasonable cause. A corporation (or an entity that has elected to be treated as a corporation) can use the designated space on page 1 of Form 2553 to request relief by explaining the reason why it was late in filing the election if it meets all of the following requirements:

- The corporation fails to qualify as an S corporation solely because of the failure to timely file Form 2553.
- The corporation has reasonable cause for its failure to timely file Form 2553.
- The corporation has not filed a tax return for the year entered on Form 2553.
- The corporation files Form 2553 as an attachment to its Form 1120S no later than 6 months after the due date of the return (excluding extensions) for the year entered on Form 2553.
- No taxpayer whose tax liability or tax return would be affected by the S corporation election has reported inconsistently with the S corporation election on any affected return for the tax year.

To request relief for a late election when the above requirements are not met, the corporation must generally request a private letter ruling and pay a user fee. The ruling and user fee requirements may not apply if the following revenue procedures apply. (1) If an entity eligible to elect to be treated as a corporation failed to timely file Form 2553 and has not elected to be treated as a corporation, see Revenue Procedure 2004-48, 2004-32 I.R.B. 172. (2) If a corporation failed to timely file Form 2553, see Revenue Procedure 2003-43, 2003-23 I.R.B. 998. (3) If Form 1120S was filed without an S corporation election and neither the corporation nor any shareholder was notified by the IRS of any problem with the S corporation status within 6 months after the return was timely filed, see Revenue Procedure 97-48, 1997-43 I.R.B. 19

Develop Planning Skills

60. *S Corporation Losses*

Suggested Questions: What is his current tax bracket? What does he expect his income and tax bracket to be in the next several years? Does he have money to invest or loan to the S corporation? If he does not have the money, can he borrow money that could be invested or lent to the corporation? What does he believe the future of the company will be? If he loans it money, does he believe the corporation will be able to pay it back? Is he interested in disposing of his stock in the near term?

61. *Choice of Entity*

Suggested Solution: a. The limited liability company (treated as a partnership for tax purposes) or the S corporation form of entity would most likely provide the best alternative initially. These forms give liability protection to the investors while allowing them to benefit from the pass through of the losses in the initial years. At a later date when the business is profitable, it could decide to maintain that business form or change to a regular corporation. What is not clear is what Cynthia is going to receive in return for her hard work in the corporation as she appears to have no ownership initially. The S corporation would offer a simple way to compensate her through grants of stock or options to purchase stock. Her ownership percentage (even without a contribution) could be set up initially in the LLC and the profit and loss sharing agreement initially adopted could be used as the mechanism for rewarding her hard work, although this is not as simple as the stock arrangement for an S corporation.

b. How does Cynthia expect to be paid for the work that she is going to put into the business? Is she getting a salary and/or is she getting part of the ownership of the business? What kind of income must she have to live on? What degree of autonomy will she have in running the company? Do the persons investing in the company want to be isolated from the company liabilities? Will they be able to make that additional investment in the company that will be needed in the future? Who are the current owners and do they want to be able to deduct the business losses currently? What do the owners expect to take from the business as repayment for their investment?

62. *S Corporation Losses*

Solution: To deduct the losses in excess of his \$10,000 basis currently, the shareholder has several options: he can make an additional investment in the capital of the corporation or he can lend the corporation sufficient money to establish debt basis against which to deduct the losses. His last option is to do nothing and leave the losses suspended until he again has basis against which to deduct them through income generated by the corporation.

Questions to ask would include: What is your current tax rate? What do you expect your tax rate to be in the next several years? Do you expect the corporation to continue with losses or are these loss years unusual and the corporation will revert to profitability in the near future? What is your financial status? Do you have money to invest or to make a loan to the S corporation so that losses could be deducted currently? Do you want to sell the corporation? As the sole shareholder, can you do things that will improve the company's profitability?

63. *Choice of Entity*

Suggested Solution: Due to the type of business (food preparation), the entity that they select should insulate them from liability. Thus, their choices would be a regular corporation, an S corporation or an LLC. Because they anticipate losses in the first three years and both women are married with husbands who are employed, the effect of the losses can be softened by using a pass-through entity that allows them

to deduct the losses against this other income. As both women will be involved in the business, they both should have no problem meeting the material participation requirements of an active business. Thus, the LLC and S corporation are the two choices. If they elect partnership status for the LLC, there will be no self-employment taxes for the first three years as the business will show losses. If they choose S status, they would have to take no salary to avoid FICA taxes—and this could be characterized as unreasonable, even though the corporation shows losses. At a later date, they could incorporate the LLC and elect S status, if they still want the benefit of loss pass through, although they would have to carefully consider the tax consequences, if any, at that time. Thus, for the time being, the LLC would appear to be the best choice for this business.

Because the rent and buy options require very similar cash outlays, the decision on whether they should rent or buy the business would appear to rest more on their future plans than on current profit or loss factors. If they buy, they will be out an additional \$100 per month for the principal, but they will be building up equity in the building. They need to consider whether they plan to stay in this new location for a long time or do they think they could outgrow it or prefer a new location in a few years. If they expect the building to appreciate in value, buying might prove a wise choice should they believe they will stay long enough to benefit from the appreciation. Renting, however, allows them more flexibility should they either grow faster than expected, or should the business fail. Given the nature of the business, an alternate option might be to rent the building for a year or more, with an option to buy that is exercisable within the next year or two depending on the fortunes of the business. (Additional discussion could also consider the potential of opening a small bakery, deli, or restaurant to more fully utilize the available space and the kitchen they want for their wedding cake business.)

Form	1040	Department of the Treasury—Internal Revenue Service (99) U.S. Individual Income Tax Return	2012	OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.																																																																																										
For the year Jan. 1–Dec. 31, 2012, or other tax year beginning		, 2012, ending		, 20																																																																																										
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City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				▲ Make sure the SSN(s) above and on line 6c are correct.																																																																																										
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Presidential Election Campaign 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																																																																																														
Filing Status	1 <input type="checkbox"/> Single 2 <input 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 instructions.) 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																																																																																													
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Exemptions	6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse <table border="1" style="width: 100%; border-collapse: collapse; font-size: 0.8em;"> <thead> <tr> <th colspan="2" style="text-align: left;">c Dependents:</th> <th style="text-align: center;">(2) Dependent's social security number</th> <th style="text-align: center;">(3) Dependent's relationship to you</th> <th style="text-align: center;">(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">(1) First name</td> <td style="text-align: left;">Last name</td> <td></td> <td></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> </tbody> </table> d Total number of exemptions claimed				c Dependents:		(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)	(1) First name	Last name			<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>																																																																	
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22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶		22	85,172																																																																																										
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions. Enclose, but do not attach, any payment. Also, please use Form 1040-V.																																																																																														
Adjusted Gross Income	<table border="1" style="width: 100%; border-collapse: collapse; font-size: 0.8em;"> <tr> <td style="width: 15%;">23</td> <td style="width: 65%;">Educator expenses</td> <td style="width: 10%;"></td> <td style="width: 10%;">23</td> <td style="width: 10%;"></td> </tr> <tr> <td>24</td> <td>Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ</td> <td>24</td> <td></td> <td></td> </tr> <tr> <td>25</td> <td>Health savings account deduction. Attach Form 8889</td> <td>25</td> <td></td> <td></td> </tr> <tr> <td>26</td> <td>Moving expenses. Attach Form 3903</td> <td>26</td> <td></td> <td></td> </tr> <tr> <td>27</td> <td>Deductible part of self-employment tax. Attach Schedule SE</td> <td>27</td> <td></td> <td></td> </tr> <tr> <td>28</td> <td>Self-employed SEP, SIMPLE, and qualified plans</td> <td>28</td> <td style="text-align: right;">6,002</td> <td></td> </tr> <tr> <td>29</td> <td>Self-employed health insurance deduction</td> <td>29</td> <td></td> <td></td> </tr> <tr> <td>30</td> <td>Penalty on early withdrawal of savings</td> <td>30</td> <td></td> <td></td> </tr> <tr> <td>31a</td> <td>Alimony paid b Recipient's SSN ▶</td> <td>31a</td> <td></td> <td></td> </tr> <tr> <td>32</td> <td>IRA deduction</td> <td>32</td> <td></td> <td></td> </tr> <tr> <td>33</td> <td>Student loan interest deduction</td> <td>33</td> <td></td> <td></td> </tr> <tr> <td>34</td> <td>Tuition and fees. Attach Form 8917</td> <td>34</td> <td></td> <td></td> </tr> <tr> <td>35</td> <td>Domestic production activities deduction. Attach Form 8903</td> <td>35</td> <td></td> <td></td> </tr> <tr> <td>36</td> <td>Add lines 23 through 35</td> <td>36</td> <td style="text-align: right;">6,002</td> <td></td> </tr> <tr> <td>37</td> <td>Subtract line 36 from line 22. This is your adjusted gross income ▶</td> <td>37</td> <td style="text-align: right;">79,179</td> <td></td> </tr> </table>				23	Educator expenses		23		24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24			25	Health savings account deduction. Attach Form 8889	25			26	Moving expenses. Attach Form 3903	26			27	Deductible part of self-employment tax. Attach Schedule SE	27			28	Self-employed SEP, SIMPLE, and qualified plans	28	6,002		29	Self-employed health insurance deduction	29			30	Penalty on early withdrawal of savings	30			31a	Alimony paid b Recipient's SSN ▶	31a			32	IRA deduction	32			33	Student loan interest deduction	33			34	Tuition and fees. Attach Form 8917	34			35	Domestic production activities deduction. Attach Form 8903	35			36	Add lines 23 through 35	36	6,002		37	Subtract line 36 from line 22. This is your adjusted gross income ▶	37	79,179																
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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.**
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2012
Attachment
Sequence No. **09**

Name of proprietor <u>James Smith</u>		Social security number (SSN) 	
A Principal business or profession, including product or service (see instructions) <u>Vending Machine Sales</u>		B Enter code from instructions 	
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.) ► City, town or post office, state, and ZIP code 			
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 2012? 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 2012, check here . <input type="checkbox"/> Yes <input type="checkbox"/> No			
I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions) . <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Forms 1099? . <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	288,000
2 Returns and allowances (see instructions)	2	0
3 Subtract line 2 from line 1	3	288,000
4 Cost of goods sold (from line 42)	4	121,000
5 Gross profit. Subtract line 4 from line 3	5	167,000
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	20,000
7 Gross income. Add lines 5 and 6	7	187,000

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

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions).	9	14,000	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):	20a	
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20b	2,400
12 Depletion	12		b Other business property	21	5,500
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	35,061	21 Repairs and maintenance	22	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	23	
15 Insurance (other than health)	15	12,000	23 Taxes and licenses	24	
16 Interest:	16a		24 Travel, meals, and entertainment:	24a	
a Mortgage (paid to banks, etc.)	16b		a Travel	24b	2,000
b Other	17		b Deductible meals and entertainment (see instructions)	25	600
17 Legal and professional services	17		25 Utilities	26	25,000
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28	96,561	26 Wages (less employment credits)	27a	
29 Tentative profit or (loss). Subtract line 28 from line 7	29	90,439	27a Other expenses (from line 48)	27b	
30 Expenses for business use of your home. Attach Form 8829 . Do not report such expenses elsewhere	30	5,467	b Reserved for future use	31	84,972
31 Net profit or (loss). Subtract line 30 from line 29.					
<ul style="list-style-type: none"> • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. 					
32 If you have a loss, check the box that describes your investment in this activity (see instructions). <ul style="list-style-type: none"> • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited. 					
32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.					

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

Cat. No. 11334P

Schedule C (Form 1040) 2012

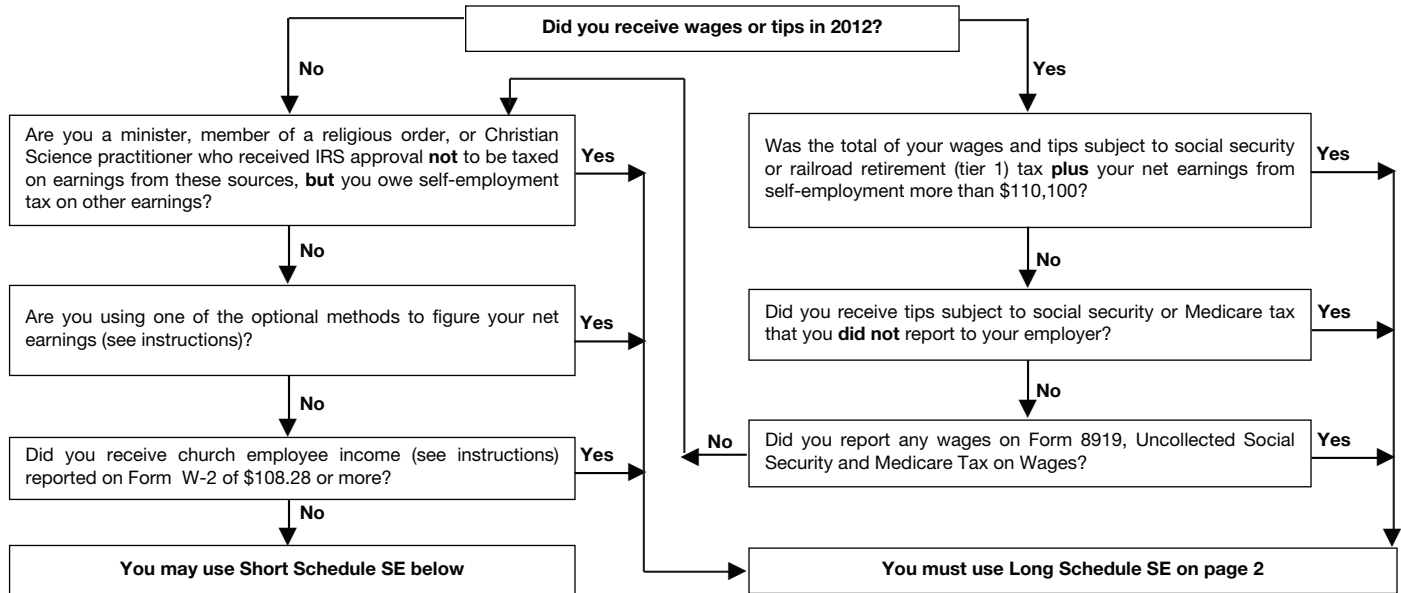
SCHEDULE SE
(Form 1040)Department of the Treasury
Internal Revenue Service (99)**Self-Employment Tax**► Information about Schedule SE and its separate instructions is at www.irs.gov/form1040.

► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2012
Attachment
Sequence No. **17**Name of person with **self-employment** income (as shown on Form 1040)

James Smith

Social security number of person
with **self-employment** income ►**Before you begin:** To determine if you must file Schedule SE, see the instructions.**May I Use Short Schedule SE or Must I Use Long Schedule SE?****Note.** Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.**Section A—Short Schedule SE. Caution.** Read above to see if you can use Short Schedule SE.

- 1a** Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A
- b** If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Y
- 2** Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report
- 3** Combine lines 1a, 1b, and 2
- 4** Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; **do not** file this schedule unless you have an amount on line 1b ►
- Note.** If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.
- 5 Self-employment tax.** If the amount on line 4 is:
- \$110,100 or less, multiply line 4 by 13.3% (.133). Enter the result here and on **Form 1040, line 56**, or **Form 1040NR, line 54**
 - More than \$110,100, multiply line 4 by 2.9% (.029). Then, add \$11,450.40 to the result. Enter the total here and on **Form 1040, line 56**, or **Form 1040NR, line 54**
- 6 Deduction for employer-equivalent portion of self-employment tax.** If the amount on line 5 is:
- \$14,643.30 or less, multiply line 5 by 57.51% (.5751)
 - More than \$14,643.30, multiply line 5 by 50% (.50) and add \$1,100 to the result. Enter the result here and on **Form 1040, line 27**, or **Form 1040NR, line 27**

1a		
1b	()
2		
3		84,972
4		78,472
5		10,437
6		6,002

Form **4797**Department of the Treasury
Internal Revenue Service**Sales of Business Property**
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return.

▶ Information about Form 4797 and its separate instructions is at www.irs.gov/form4797.

OMB No. 1545-0184

2012Attachment
Sequence No. **27**

Name(s) shown on return

James Smith

Identifying number

- 1** Enter the gross proceeds from sales or exchanges reported to you for 2012 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)

1**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
3	Gain, if any, from Form 4684, line 39						3
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37						4
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5
6	Gain, if any, from line 32, from other than casualty or theft.						6
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:						7
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.							
8	Nonrecaptured net section 1231 losses from prior years (see instructions)						8
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)						9

Part II Ordinary Gains and Losses (see instructions)

- 10**
- Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11	Loss, if any, from line 7						11 ()
12	Gain, if any, from line 7 or amount from line 8, if applicable						12
13	Gain, if any, from line 31						13 200
14	Net gain or (loss) from Form 4684, lines 31 and 38a						14
15	Ordinary gain from installment sales from Form 6252, line 25 or 36						15
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824.						16
17	Combine lines 10 through 16						17 200
18	For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:						
a	If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions						18a
b	Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14						18b 200

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 130861

Form **4797** (2012)

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
 (see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:		(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A	Tr ck	3/2011	12/2012
B			
C			
D			

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1 before completing.)	20	5,000		
21	Cost or other basis plus expense of sale	21	12,500		
22	Depreciation (or depletion) allowed or allowable.	22	7,700		
23	Adjusted basis. Subtract line 22 from line 21.	23	4,800		
24	Total gain. Subtract line 23 from line 20	24	200		
25	If section 1245 property:				
a	Depreciation allowed or allowable from line 22	25a	7,700		
b	Enter the smaller of line 24 or 25a	25b	200		
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.				
a	Additional depreciation after 1975 (see instructions)	26a			
b	Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b			
c	Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c			
d	Additional depreciation after 1969 and before 1976.	26d			
e	Enter the smaller of line 26c or 26d	26e			
f	Section 291 amount (corporations only)	26f			
g	Add lines 26b, 26e, and 26f.	26g			
27	If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).				
a	Soil, water, and land clearing expenses	27a			
b	Line 27a multiplied by applicable percentage (see instructions)	27b			
c	Enter the smaller of line 24 or 27b	27c			
28	If section 1254 property:				
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a			
b	Enter the smaller of line 24 or 28a	28b			
29	If section 1255 property:				
a	Applicable percentage of payments excluded from income under section 126 (see instructions)	29a			
b	Enter the smaller of line 24 or 29a (see instructions)	29b			

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30	Total gains for all properties. Add property columns A through D, line 24	30	200
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	200
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
 (see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years.	33	
34 Recomputed depreciation (see instructions)	34	
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35	

Form **4562**Department of the Treasury
Internal Revenue Service (99)**Depreciation and Amortization**
(Including Information on Listed Property)

▶ See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0172

2012
Attachment
Sequence No. **179**

Name(s) shown on return

James Smith

Business or activity to which this form relates

Vending Machine Sales

Identifying number

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2011 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2013. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2012	17	27,613
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2012 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		24,000	5 yr	MQ	MACRS	1,200
c 7-year property		35,000	7 yr	MQ	MACRS	6,248
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2012 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	35,061
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2012, or tax year beginning _____, 2012, ending _____, 20____. ▶ Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 .	OMB No. 1545-0099 <div style="font-size: 2em; font-weight: bold;">2012</div>
A Principal business activity B Principal product or service C Business code number	<div style="display: flex;"> <div style="width: 50px; text-align: center; font-weight: bold;">Print or type.</div> <div> Name of partnership <u>GG Partnership</u> Number, street, and room or suite no. If a P.O. box, see the instructions. City or town, state, and ZIP code </div> </div>	D Employer identification number E Date business started F Total assets (see the instructions) \$ _____

- G** Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
 (6) ☐ Technical termination - also check (1) or (2)
- H** Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ _____
- I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ _____
- J** Check if Schedules C and M-3 are attached ☐

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a	Gross receipts or sales	1a	150,000		
	b	Returns and allowances	1b	0		
	c	Balance. Subtract line 1b from line 1a	1c	150,000		
	2	Cost of goods sold (attach Form 1125-A)	2	95,000		
	3	Gross profit. Subtract line 2 from line 1c	3	55,000		
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4			
	5	Net farm profit (loss) (attach Schedule F (Form 1040))	5			
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6			
Deductions <small>(see the instructions for limitations)</small>	7	Other income (loss) (attach statement)	7			
	8	Total income (loss). Combine lines 3 through 7	8	55,000		
	9	Salaries and wages (other than to partners) (less employment credits)	9	15,000		
	10	Guaranteed payments to partners	10			
	11	Repairs and maintenance	11			
	12	Bad debts	12			
	13	Rent	13	15,000		
	14	Taxes and licenses	14			
	15	Interest	15			
	16a	Depreciation (if required, attach Form 4562)	16a			
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b			
	16c		16c			
	17	Depletion (Do not deduct oil and gas depletion.)	17			
	18	Retirement plans, etc.	18			
19	Employee benefit programs	19				
20	Other deductions (attach statement)	20	4,000			
21	Total deductions. Add the amounts shown in the far right column for lines 9 through 20	21	34,000			
22	Ordinary business income (loss). Subtract line 21 from line 8	22	21,000			

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager

Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

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.			

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11390Z

Form **1065** (2012)

Schedule K Partners' Distributions Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	1	21,000
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss) 3a		
	b Expenses from other rental activities (attach statement) 3b		
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4 Guaranteed payments	4	
	5 Interest income	5	
	6 Dividends: a Ordinary dividends 6a		
	b Qualified dividends 6b		
	7 Royalties	7	
	8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	
Deductions	9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	
	b Collectibles (28%) gain (loss) 9b		
	c Unrecaptured section 1250 gain (attach statement) 9c		
	10 Net section 1231 gain (loss) (attach Form 4797)	10	2,000
	11 Other income (loss) (see instructions) Type ▶	11	
	12 Section 179 deduction (attach Form 4562)	12	
	13a Contributions 13a		1,000
	b Investment interest expense 13b		
	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶ 13c(2)		
	d Other deductions (see instructions) Type ▶ 13d		
	Self-Employment	14a Net earnings (loss) from self-employment 14a	
b Gross farming or fishing income 14b			
c Gross nonfarm income 14c			
Credits	15a Low-income housing credit (section 42(j)(5)) 15a		
	b Low-income housing credit (other) 15b		
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468) 15c		
	d Other rental real estate credits (see instructions) Type ▶ 15d		
	e Other rental credits (see instructions) Type ▶ 15e		
	f Other credits (see instructions) Type ▶ 15f		
Foreign Transactions	16a Name of country or U.S. possession ▶ 16a		
	b Gross income from all sources 16b		
	c Gross income sourced at partner level 16c		
	Foreign gross income sourced at partnership level		
	d Passive category ▶ e General category ▶ f Other ▶ 16f		
	Deductions allocated and apportioned at partner level		
	g Interest expense ▶ h Other ▶ 16h		
	Deductions allocated and apportioned at partnership level to foreign source income		
	i Passive category ▶ j General category ▶ k Other ▶ 16k		
	l Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/> 16l		
m Reduction in taxes available for credit (attach statement) 16m			
n Other foreign tax information (attach statement)			
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment 17a		
	b Adjusted gain or loss 17b		
	c Depletion (other than oil and gas) 17c		
	d Oil, gas, and geothermal properties—gross income 17d		
	e Oil, gas, and geothermal properties—deductions 17e		
	f Other AMT items (attach statement) 17f		
Other Information	18a Tax-exempt interest income 18a		
	b Other tax-exempt income 18b		
	c Nondeductible expenses 18c		
	19a Distributions of cash and marketable securities 19a		
	b Distributions of other property 19b		
	20a Investment income 20a		
	b Investment expenses 20b		
c Other items and amounts (attach statement)			

Form **1120S**Department of the Treasury
Internal Revenue Service**U.S. Income Tax Return for an S Corporation**

OMB No. 1545-0130

2012

► Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
► Information about Form 1120S and its separate instructions is at www.irs.gov/form1120s.

For calendar year 2012 or tax year beginning , 2012, ending , 20

A S election effective date	TYPE OR PRINT	Name <u>GG S Corporation</u>	D Employer identification number
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
C Check if Sch. M-3 attached <input type="checkbox"/>		City or town, state, and ZIP code	F Total assets (see instructions) \$

G Is the corporation electing to be an S corporation beginning with this tax year? ☐ Yes ☐ No If "Yes," attach Form 2553 if not already filed**H** Check if: (1) ☐ Final return (2) ☐ Name change (3) ☐ Address change (4) ☐ Amended return (5) ☐ S election termination or revocation**I** Enter the number of shareholders who were shareholders during any part of the tax year ►**Caution.** Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1 a Gross receipts or sales	1a	<u>150,000</u>		
	b Returns and allowances	1b	<u>0</u>		
	c Balance. Subtract line 1b from line 1a	1c		<u>150,000</u>	
	2 Cost of goods sold (attach Form 1125-A)	2		<u>95,000</u>	
	3 Gross profit. Subtract line 2 from line 1c	3		<u>55,000</u>	
	4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)	4			
5 Other income (loss) (see instructions—attach statement)	5				
6 Total income (loss). Add lines 3 through 5	6		<u>55,000</u>		
Deductions (see instructions for limitations)	7 Compensation of officers	7			
	8 Salaries and wages (less employment credits)	8		<u>15,000</u>	
	9 Repairs and maintenance	9			
	10 Bad debts	10			
	11 Rents	11		<u>15,000</u>	
	12 Taxes and licenses	12			
	13 Interest	13			
	14 Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14			
	15 Depletion (Do not deduct oil and gas depletion.)	15			
	16 Advertising	16			
	17 Pension, profit-sharing, etc., plans	17			
	18 Employee benefit programs	18			
	19 Other deductions (attach statement)	19		<u>4,000</u>	
	20 Total deductions. Add lines 7 through 19	20		<u>34,000</u>	
	21 Ordinary business income (loss). Subtract line 20 from line 6	21		<u>21,000</u>	
Tax and Payments	22a Excess net passive income or LIFO recapture tax (see instructions)	22a			
	b Tax from Schedule D (Form 1120S)	22b			
	c Add lines 22a and 22b (see instructions for additional taxes)	22c			
	23a 2012 estimated tax payments and 2011 overpayment credited to 2012	23a			
	b Tax deposited with Form 7004	23b			
	c Credit for federal tax paid on fuels (attach Form 4136)	23c			
	d Add lines 23a through 23c	23d			
	24 Estimated tax penalty (see instructions). Check if Form 2220 is attached	24			
	25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed	25			
	26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid	26			
27 Enter amount from line 26 Credited to 2013 estimated tax ► Refunded ►	27				

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer

Date

Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No**Paid Preparer Use Only**

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no.

Schedule K Shareholders' Pro Rata Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 21)	1	21,000
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss) 3a		
	b Expenses from other rental activities (attach statement) 3b		
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4 Interest income	4	
	5 Dividends: a Ordinary dividends 5a		
	b Qualified dividends 5b		
	6 Royalties	6	
	7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))	7	
Income (Loss)	8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S))	8a	
	b Collectibles (28%) gain (loss) 8b		
	c Unrecaptured section 1250 gain (attach statement) 8c		
	9 Net section 1231 gain (loss) (attach Form 4797)	9	2,000
	10 Other income (loss) (see instructions) . . . Type ▶	10	
Deductions	11 Section 179 deduction (attach Form 4562)	11	
	12a Charitable contributions	12a	1,000
	b Investment interest expense	12b	
	c Section 59(e)(2) expenditures (1) Type ▶ (2) Amount ▶	12c(2)	
	d Other deductions (see instructions) . . . Type ▶	12d	
Credits	13a Low-income housing credit (section 42(j)(5))	13a	
	b Low-income housing credit (other)	13b	
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468)	13c	
	d Other rental real estate credits (see instructions) Type ▶	13d	
	e Other rental credits (see instructions) . . . Type ▶	13e	
	f Alcohol and cellulosic biofuel fuels credit (attach Form 6478)	13f	
	g Other credits (see instructions) Type ▶	13g	
Foreign Transactions	14a Name of country or U.S. possession ▶		
	b Gross income from all sources	14b	
	c Gross income sourced at shareholder level	14c	
	Foreign gross income sourced at corporate level		
	d Passive category	14d	
	e General category	14e	
	f Other (attach statement)	14f	
	Deductions allocated and apportioned at shareholder level		
	g Interest expense	14g	
	h Other	14h	
	Deductions allocated and apportioned at corporate level to foreign source income		
	i Passive category	14i	
	j General category	14j	
	k Other (attach statement)	14k	
Other information			
l Total foreign taxes (check one): ▶ <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	14l		
m Reduction in taxes available for credit (attach statement)	14m		
n Other foreign tax information (attach statement)			
Alternative Minimum Tax (AMT) Items	15a Post-1986 depreciation adjustment	15a	
	b Adjusted gain or loss	15b	
	c Depletion (other than oil and gas)	15c	
	d Oil, gas, and geothermal properties—gross income	15d	
	e Oil, gas, and geothermal properties—deductions	15e	
	f Other AMT items (attach statement)	15f	
Items Affecting Shareholder Basis	16a Tax-exempt interest income	16a	
	b Other tax-exempt income	16b	
	c Nondeductible expenses	16c	
	d Distributions (attach statement if required) (see instructions)	16d	
	e Repayment of loans from shareholders	16e	

Schedule K		Shareholders' Pro Rata Share Items (continued)	Total amount	
Other Information	17a	Investment income	17a	
	b	Investment expenses	17b	
	c	Dividend distributions paid from accumulated earnings and profits	17c	
	d	Other items and amounts (attach statement)		
Reconciliation	18	Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14i	18	22,000

Schedule L		Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)		
1	Cash						
2a	Trade notes and accounts receivable						
b	Less allowance for bad debts	()		()			
3	Inventories						
4	U.S. government obligations						
5	Tax-exempt securities (see instructions)						
6	Other current assets (attach statement)						
7	Loans to shareholders						
8	Mortgage and real estate loans						
9	Other investments (attach statement)						
10a	Buildings and other depreciable assets						
b	Less accumulated depreciation	()		()			
11a	Depletable assets						
b	Less accumulated depletion	()		()			
12	Land (net of any amortization)						
13a	Intangible assets (amortizable only)						
b	Less accumulated amortization	()		()			
14	Other assets (attach statement)						
15	Total assets						
Liabilities and Shareholders' Equity							
16	Accounts payable						
17	Mortgages, notes, bonds payable in less than 1 year						
18	Other current liabilities (attach statement)						
19	Loans from shareholders						
20	Mortgages, notes, bonds payable in 1 year or more						
21	Other liabilities (attach statement)						
22	Capital stock						
23	Additional paid-in capital						
24	Retained earnings						
25	Adjustments to shareholders' equity (attach statement)						
26	Less cost of treasury stock		()		()		
27	Total liabilities and shareholders' equity						