MIXED REVIEW

Determine the monthly payment and total payments (deferred payment price) for each car loan.

1. \$15,500 at $6\frac{1}{2}\%$ for 5 years
2. \$9,000 at 10% for 4 years
3. Use the Comparison Table for Term and Whole Life Premiums on page 326 to find the yearly premiums for \$100,000 of whole life insurance and of 5-year term insurance, each purchased at the age of 45. Which is the less expensive insurance and what is the first-year saving if the less expensive insurance is purchased?
4. How many whole shares of Truffles Company stock can you buy if you have \$37,665 to invest and the stock is selling for $102\frac{1}{4}$ per share? Ignore commission costs.

Use the credit scoring table on page 293 of Lesson 6–6 to determine the credit score for each family described below. Then determine the probability that the head of the household will repay the loan.

5. **Family 1**
   - Age of the head of household: 40
   - Lived at current address: 6 years
   - Age of their current car: 2 years
   - Monthly car payment: \$190
   - Housing cost: \$800 per month
   - They have a checking account and a savings account
   - They have not been referred to a finance company
   - They have 4 major credit cards
   - Their ratio of debt to income is 15%
6. **Family 2**
   - Age of the head of household: 24
   - Lived at current address: 3 years
   - Age of their current car: 4 years
   - Monthly car payment: \$90
   - Housing cost: \$350 per month
   - They have a checking account but no savings account
   - They have not been referred to a finance company
   - They have 8 major credit cards
   - Their ratio of debt to income is 15%

Suppose that an exponential regression model gives the following equations as a description of the cost of living over a 5-year period. What would be the expected rate of inflation?

7. $y = 150(1 + 0.06)^x$
8. $y = 83.5(1.027)^x$

9-3 FORM 1040, SCHEDULE A, AND HELP!

Evelyn went into business with her friends selling T-shirts and sweatshirts decorated with hand-painted designs. After a few months the partners had their production process fairly well under control, and the enterprise began to show a profit. Now it is February; the business has been in operation since August. Evelyn knows that she must file an income tax return for the income she has received from the business.

She wants her tax return to be completed very carefully. She heard some of her friends talking about the problems of the father of one of their classmates. They were discussing several of his visits to the IRS office. Apparently, the IRS examined some of his tax returns from earlier years. The way Evelyn understood the matter, he had to pay over $12,000 in back taxes that the IRS said he owed.

Evelyn knew she couldn't begin to scrape together $12,000 to pay the government, especially not at any one time. Her parents assure her that unless her profits are over $60,000 in one year, she will not have to pay that much. They have had years when their tax bill was that high, however, so Evelyn knows that the federal income tax is not an insignificant amount.

If Evelyn decides that she cannot fill out the proper forms and needs some help, several sources of assistance are available. Evelyn will explore some of these sources.

OBJECTIVES: *In this lesson, we will help Evelyn to:*

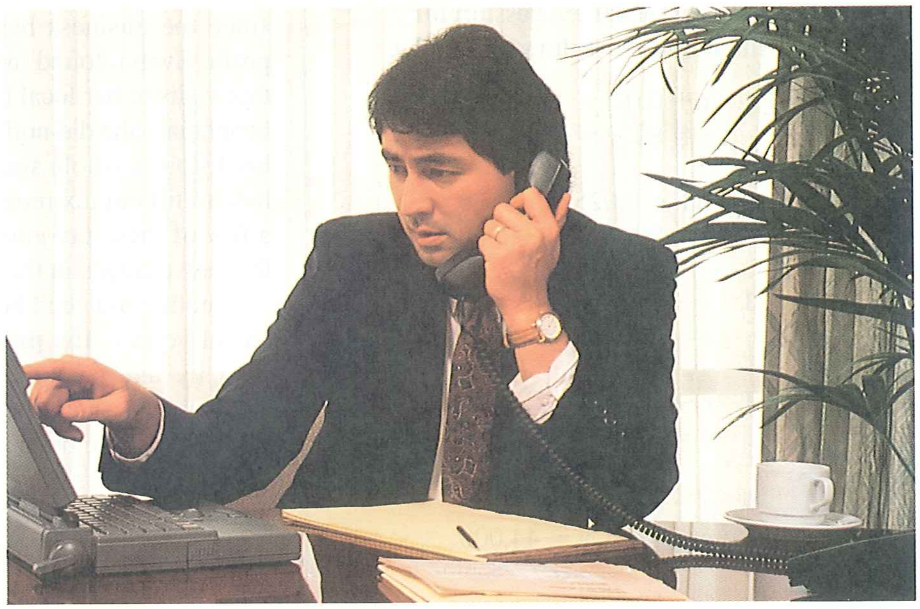
- *Find where a taxpayer can go for help in filing a tax return.*
- *Complete Form 1040 and Schedule A.*

TAX HELP: WHERE TO GET IT

When Evelyn first looked at the array of different tax forms that are available at the local IRS office, she was not sure which ones to pick up. She finally settled on Form 1040, a booklet of instructions for Form 1040, and a few other IRS publications that looked as if they might have something to do with business.

Evelyn's parents have been filing the 1040 form every year since they bought their first house. The interest that they pay on the mortgage is deductible. However, to take advantage of this deduction, they must use the 1040 form.

Evelyn, who cannot tell a deduction from a dependent, looks at the 1040 form and wonders whether it is truly written in English. She recognizes the words, but making sense out of what they say is a formidable task. Fortunately for Evelyn, there are people who make their livings interpreting all the rules set up by the IRS.



In fact, by the middle of the 1980s, over one third of all taxpayers sought help from the IRS, and millions of others paid from ten dollars to thousands of dollars for tax help from other sources. For Evelyn and millions like her, four major sources of tax help are available: the IRS itself, professional tax preparers including mass-market tax preparation services, CPA tax specialists, and tax lawyers. The first three of these sources are described below.

Internal Revenue Service The IRS has a toll-free telephone answering service and nearly 1000 tax assistance centers located throughout the United States. Under certain circumstances the IRS will figure your tax for you on Form 1040, Form 1040A, or Form 1040EZ. Of course, you must provide complete information.

Relying on an IRS employee's opinion about a tax issue is not always a good idea. The IRS has been known to give taxpayers wrong forms, answer questions incorrectly, make mathematical errors, and, very rarely, dispense misleading or incorrect advice in its publications. Moreover, if you make a mistake because of incorrect advice from the IRS, you will probably have little success in using this fact as an excuse for the mistake. In other words, claiming that you were misinformed will probably not help if the IRS selects your return for examination.

Professional Tax Preparation Services There are tax preparation services that will prepare your 1040A forms for a fee, sometimes as low as \$10 to \$25. However, since you have to find and provide all the essential records, which is most of the work, you may be able to do the whole job yourself. The IRS has exerted enormous effort to simplify the forms so that you can fill them out without help and thus save the money you would otherwise pay a tax preparer. If you feel that a preparation service is necessary, however, you should talk personally with the person who works on the return to find out something about the preparer's background.

Certified Public Accountants For complicated tax work, a certified public accountant (CPA) who specializes in taxes is the best source of tax help.

Do-It-Yourself Being in business for herself with her friends has given Evelyn more confidence, especially since the business has started to grow and make a profit. Evelyn found in the early stages of the business that visits to her local bookstore and library were very beneficial. She did notice in the business section of the bookstore a whole shelf of books offering advice on how to fill out tax returns. Evelyn's parents have read a few of these tax guides, and every year they study the new changes in the tax law.

Another source of help that has gained acceptance in recent years is **tax preparation software** that can be used by any person who has a personal computer. Programs for both federal taxes and state taxes are available. These programs may cost over \$50 (less for state tax programs) and cannot normally be reused for the following year's taxes. However, after your initial purchase, you can usually buy the tax program for later years at a discount from the original price.

Ask Yourself

1. What are four major sources of help in completing income tax forms?
2. What is the best source of tax help for someone who has a complicated return?
3. What sources of help are available for someone who wants to prepare his or her own tax return?

ALGEBRA REVIEW

Evaluate each expression for the indicated values of *x* and *y*.

1. $x + 0.025y$
   $x = 80, y = 10{,}000$
2. $x(1 + 0.025)y$
   $x = 80, y = 10{,}000$
3. $x - 0.075y$
   $x = 10{,}000, y = 30{,}000$
4. $x - 0.075y$
   $x = 2250, y = 30{,}000$
5. $x - 0.075y$
   $x = 4250, y = 44{,}000$

Graph each inequality on a number line.

6. $x \geq -2$
7. $0 \leq x$
8. $x < 5$
9. $x > -4$
10. $2 \leq x < 10$
11. $x < -1$ or $3 < x$
12. $-3 < x \leq 5$
13. $x > -2$ and $x < 1$
14. $x < 0$ or $x \geq 2$

SHARPEN YOUR SKILLS

SKILL 1

EXAMPLE 1 Mr. and Mrs. Enterprise file the 1040 form each year mainly because of the mortgage interest deduction, which requires filling out Schedule A. Many parts of the 1040 form are similar to those on the 1040A form. Quite a few of the lines on the 1040 form do not apply to the Enterprises.

QUESTION How should the Enterprises complete page 1 of Form 1040?

SOLUTION

To fill out Schedule A, the Enterprises first have to find their adjusted gross income on line 31 of Form 1040. This line is at the bottom of the first page of the form, which is shown on page 438. Here is an explanation of some of the lines of page 1.

Lines 1–5	Filing status of taxpayer; similar to 1040A
Line 6	Exemptions; similar to 1040A
Lines 7–9	Income from wages, salaries, interest, and dividends; similar to 1040A
Lines 10–22	Other kinds of income that an individual or family might have
Line 23	The family's total income
Lines 24a, 24b	The IRA contribution of $2000 from each of the Enterprises' two salaries. Neither of Evelyn's parents is covered at work by a retirement plan, so each is allowed a full deduction of the $2000 contribution.
Lines 25–29	Other adjustments to income that do not apply to the Enterprises
Line 30	The total adjustments. For the Enterprises this is just the IRA contributions.
Line 31	The adjusted gross income

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 19-- (0) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 1992, or other tax year beginning , 1992, ending , 19 OMB No. 1545-0074

Label (See instructions on page 10.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

Your first name and initial: FREEMONT O.	Last name: ENTERPRISE	Your social security number: 526 31 7055
If a joint return, spouse's first name and initial: ELAINE P.	Last name: ENTERPRISE	Spouse's social security number: 475 42 9266
Home address (number and street). If you have a P.O. box, see page 10.: 300 MAIN STREET	Apt. no.	**For Privacy Act and Paperwork Reduction Act Notice, see page 4.**
City, town or post office, state, and ZIP code. If you have a foreign address, see page 10.: MUNCIE, INDIANA 47304		

Presidential Election Campaign (See page 10.)

	Yes	No
Do you want $1 to go to this fund?	✓ Yes	No
If a joint return, does your spouse want $1 to go to this fund?	✓ Yes	No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status (See page 10.) Check only one box.

1 ☐ Single
2 ☑ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See page 11.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 11.)

Exemptions (See page 11.)

6a ☒ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a. But be sure to check the box on line 33b on page 2

b ☒ **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 1 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1992
EVELYN ENTERPRISE		237 11 8642	DAUGHTER	12

If more than six dependents, see page 12.

No. of your children on 6c who:
- lived with you: 1
- didn't live with you due to divorce or separation (see page 13)

No. of other dependents on 6c

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

Add numbers entered on lines above ▶ 3

Income

Attach Copy B of your Forms W-2, W-2G, and 1099-R here.

If you did not get a W-2, see page 9.

Attach check or money order on top of any Forms W-2, W-2G, or 1099-R.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	47,650 00
8a	**Taxable** interest income. Attach Schedule B if over $400	8a	350 00
b	**Tax-exempt** interest income (see page 15). DON'T include on line 8a — 8b		
9	Dividend income. Attach Schedule B if over $400	9	
10	Taxable refunds, credits, or offsets of state and local income taxes from worksheet on page 16	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D	13	
14	Capital gain distributions not reported on line 13 (see page 15)	14	
15	Other gains or (losses). Attach Form 4797	15	
16a	Total IRA distributions — 16a; b Taxable amount (see page 16)	16b	
17a	Total pensions and annuities — 17a; b Taxable amount (see page 16)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. Attach Schedule E	18	
19	Farm income or (loss). Attach Schedule F	19	
20	Unemployment compensation (see page 17)	20	
21a	Social security benefits — 21a; b Taxable amount (see page 17)	21b	
22	Other income. List type and amount—see page 18	22	
23	Add the amounts in the far right column for lines 7 through 22. This is your **total income** ▶	23	48,000 00

Adjustments to Income (See page 18.)

24a	Your IRA deduction from applicable worksheet on page 19 or 20	24a	4,000 00
b	Spouse's IRA deduction from applicable worksheet on page 19 or 20	24b	
25	One-half of self-employment tax (see page 20)	25	
26	Self-employed health insurance deduction (see page 20)	26	
27	Keogh retirement plan and self-employed SEP deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid. Recipient's SSN ▶	29	
30	Add lines 24a through 29. These are your **total adjustments** ▶	30	4,000 00

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $22,370 and a child lived with you, see page EIC-1 to find out if you can claim the "Earned Income Credit" on line 56* ▶	31	44,000 00

Cat. No. 11320B Form **1040** (19--)

Tax Computation (See page 22.)	32	Amount from line 31 (adjusted gross income)		32 — 44,000 00
	33a	Check if: ☐ **You** were 65 or older, ☐ Blind; ☐ **Spouse** was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here ▶ 33a		
	b	If your parent (or someone else) can claim you as a dependent, check here ▶ 33b ☐		
	c	If you are married filing separately and your spouse itemizes deductions or you are a dual-status alien, see page 22 and check here ▶ 33c ☐		
	34	Enter the **larger** of your: **Itemized deductions** from Schedule A, line 26, **OR** **Standard deduction** shown below for your filing status. **But if you checked any box on line 33a or b,** go to page 22 to find your standard deduction. **If you checked box 33c,** your standard deduction is zero. • Single—$3,600 • Head of household—$5,250 • Married filing jointly or Qualifying widow(er)—$6,000 • Married filing separately—$3,000		34 — 9,210 00
	35	Subtract line 34 from line 32		35 — 34,790 00
	36	If line 32 is $78,950 or less, multiply $2,300 by the total number of exemptions claimed on line 6e. If line 32 is over $78,950, see the worksheet on page 23 for the amount to enter		36 — 6,900 00
If you want the IRS to figure your tax, see page 23.	37	**Taxable income.** Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-		37 — 27,890 00
	38	Enter tax. Check if from a ☒ Tax Table, b ☐ Tax Rate Schedules, c ☐ Schedule D, or d ☐ Form 8615 (see page 23). Amount, if any, from Form(s) 8814 ▶ e		38 — 4,181 00
	39	Additional taxes (see page 23). Check if from a ☐ Form 4970 b ☐ Form 4972		39
	40	Add lines 38 and 39 ▶		40 — 4,181 00
Credits (See page 23.)	41	Credit for child and dependent care expenses. Attach Form 2441	41	
	42	Credit for the elderly or the disabled. Attach Schedule R	42	
	43	Foreign tax credit. Attach Form 1116	43	
	44	Other credits (see page 24). Check if from a ☐ Form 3800 b ☐ Form 8396 c ☐ Form 8801 d ☐ Form (specify) ______	44	
	45	Add lines 41 through 44		45 — 0 00
	46	Subtract line 45 from line 40. If line 45 is more than line 40, enter -0- ▶		46 — 4,181 00
Other Taxes	47	Self-employment tax. Attach Schedule SE. Also, see line 25		47
	48	Alternative minimum tax. Attach Form 6251		48
	49	Recapture taxes (see page 25). Check if from a ☐ Form 4255 b ☐ Form 8611 c ☐ Form 8828		49
	50	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		50
	51	Tax on qualified retirement plans, including IRAs. Attach Form 5329		51
	52	Advance earned income credit payments from Form W-2		52
	53	Add lines 46 through 52. This is your **total tax** ▶		53 — 4,181 00
Payments Attach Forms W-2, W-2G, and 1099-R on the front.	54	Federal income tax withheld. If any is from Form(s) 1099, check ▶ ☐	54 — 5,100 00	
	55	1992 estimated tax payments and amount applied from 1991 return	55	
	56	**Earned income credit.** Attach Schedule EIC	56	
	57	Amount paid with Form 4868 (extension request)	57	
	58	Excess social security, Medicare, and RRTA tax withheld (see page 26)	58	
	59	Other payments (see page 26). Check if from a ☐ Form 2439 b ☐ Form 4136	59	
	60	Add lines 54 through 59. These are your **total payments** ▶		60 — 5,100 00
Refund or Amount You Owe	61	If line 60 is more than line 53, subtract line 53 from line 60. This is the amount you **OVERPAID** ▶		61 — 919 00
	62	Amount of line 61 you want **REFUNDED TO YOU** ▶		62 — 919 00
	63	Amount of line 61 you want **APPLIED TO YOUR 1993 ESTIMATED TAX** ▶	63	
Attach check or money order on top of Form(s) W-2, etc., on the front.	64	If line 53 is more than line 60, subtract line 60 from line 53. This is the **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1992 Form 1040" on it		64
	65	Estimated tax penalty (see page 27). Also include on line 64	65	

Sign Here

Keep a copy of this return for your records.

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.

Your signature	Date	Your occupation
Freemont Enterprise	4/12/--	Production Manager
Spouse's signature. If a joint return, BOTH must sign.	**Date**	**Spouse's occupation**
Elaine Enterprise	4-12--	Travel Agent

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address		E.I. No.	
		ZIP code	

*U.S. Government Printing Office: 19-- — 315-148

SKILL 2

EXAMPLE 2 With page 1 of Form 1040 now completed, the Enterprises can now fill out Schedule A.

QUESTION How should the Enterprises use Schedule A to itemize their deductions?

SOLUTION

Mr. and Mrs. Enterprise have paid $4500 in mortgage interest on their home and also have several other deductible expenses, such as state income taxes and charitable contributions. Here is an explanation of the Enterprises' Schedule A, which appears on page 442.

Line 1	Medical expenses: $4250.00
Lines 2–4	This amount from line 31 (or line 32) of Form 1040 is used to reduce the amount of the medical deduction from $4250 to $950.
Line 5	During the tax year the Enterprises paid $1320 to the state of Indiana in income taxes. Of this, $1200 was money withheld by the two employers during the tax year. The balance was paid by Mr. Enterprise himself in April of the year when he sent the State of Indiana a check for $120 to complete his income tax payment for the year before that.
Line 6	Real-estate taxes on their home: $1240
Line 8	Total deductible taxes: $2560
Lines 9a–12	Interest payments paid on their home mortgage: $4500
Lines 13–16	Contributions to a local charity: $1200
Line 26	Totals from lines 4, 8, 12, and 16: $9210. The Enterprises enter this amount on line 34 of Form 1040 shown on page 439.

SKILL 3

EXAMPLE 3 The Enterprises can now complete Form 1040 shown on page 439.

QUESTION How will the Enterprises use Schedule A to complete Form 1040?

SOLUTION

Line 32	This is the same as line 31, the adjusted gross income.
Lines 33–34	These lines determine your deduction. They are similar to the lines of Form 1040A except that here there is a choice of taking an itemized deduction based on Schedule A.
Line 35	The gross adjusted income reduced by the itemized deductions: $44{,}000 - 9210 = \$34{,}790$.

Line 36 The exemptions: 3 exemptions • \$2300 = \$6900.

Line 37 The taxable income: line 35 − line 36, that is, 34,790 − 6900, or \$27,890.

Lines 38–40 Since the taxable income is less than \$100,000, the Enterprises use the Tax Table to find their tax. To the right of the line that reads "27,850 27,900" they find their tax, \$4,181, in the second column. If the income had been greater than \$100,000, they would have used the Tax Rate Schedule instead.

Lines 41–52 The Enterprises have no credits to subtract from their tax on line 40 or other taxes to pay.

Line 53 The total tax. Since there are no credits or other taxes, the total tax is the same as line 40 above.

Lines 54–60 Payments already made on the tax. For the Enterprises this is just line 54, the payments withheld on the W-2 forms.

Lines 61–62 Since line 60 is greater than line 53, the Enterprises have a refund: \$5100 − \$4181 = \$919.

The Enterprises both sign their Form 1040. Then, before the filing deadline, they attach the W-2 forms to the form and mail it together with Schedule A to the IRS in an envelope that the IRS has provided.

If line 5 (Form 1040EZ), line 22 (Form 1040A), or line 37 (Form 1040) is—		And you are—			
At least	But less than	Single	Married filing jointly •	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
26,000					
26,000	26,050	4,499	3,904	4,960	3,904
26,050	26,100	4,513	3,911	4,974	3,911
26,100	26,150	4,527	3,919	4,988	3,919
26,150	26,200	4,541	3,926	5,002	3,926
26,200	26,250	4,555	3,934	5,016	3,934
26,250	26,300	4,569	3,941	5,030	3,941
26,300	26,350	4,583	3,949	5,044	3,949
26,350	26,400	4,597	3,956	5,058	3,956
26,400	26,450	4,611	3,964	5,072	3,964
26,450	26,500	4,625	3,971	5,086	3,971
26,500	26,550	4,639	3,979	5,100	3,979
26,550	26,600	4,653	3,986	5,114	3,986
26,600	26,650	4,667	3,994	5,128	3,994
26,650	26,700	4,681	4,001	5,142	4,001
26,700	26,750	4,695	4,009	5,156	4,009
26,750	26,800	4,709	4,016	5,170	4,016
26,800	26,850	4,723	4,024	5,184	4,024
26,850	26,900	4,737	4,031	5,198	4,031
26,900	26,950	4,751	4,039	5,212	4,039
26,950	27,000	4,765	4,046	5,226	4,046
27,000					
27,000	27,050	4,779	4,054	5,240	4,054
27,050	27,100	4,793	4,061	5,254	4,061
27,100	27,150	4,807	4,069	5,268	4,069
27,150	27,200	4,821	4,076	5,282	4,076
27,200	27,250	4,835	4,084	5,296	4,084
27,250	27,300	4,849	4,091	5,310	4,091
27,300	27,350	4,863	4,099	5,324	4,099
27,350	27,400	4,877	4,106	5,338	4,106
27,400	27,450	4,891	4,114	5,352	4,114
27,450	27,500	4,905	4,121	5,366	4,121
27,500	27,550	4,919	4,129	5,380	4,129
27,550	27,600	4,933	4,136	5,394	4,136
27,600	27,650	4,947	4,144	5,408	4,144
27,650	27,700	4,961	4,151	5,422	4,151
27,700	27,750	4,975	4,159	5,436	4,159
27,750	27,800	4,989	4,166	5,450	4,166
27,800	27,850	5,003	4,174	5,464	4,174
27,850	27,900	5,017	4,181	5,478	4,181
27,900	27,950	5,031	4,189	5,492	4,189
27,950	28,000	5,045	4,196	5,506	4,196

SCHEDULES A&B (Form 1040)

Department of the Treasury Internal Revenue Service (0)

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074

19--

Attachment Sequence No. 07

Name(s) shown on Form 1040: FREEMONT AND ELAINE ENTERPRISE

Your social security number: 526 : 31 : 7055

Medical and Dental Expenses		**Caution:** *Do not include expenses reimbursed or paid by others.*				
	1	Medical and dental expenses (see page A-1)	1	4,250 00		
	2	Enter amount from Form 1040, line 32. 2 44,000				
	3	Multiply line 2 above by 7.5% (.075)	3	3,300 00		
	4	Subtract line 3 from line 1. If zero or less, enter -0- ▶			4	950 00
Taxes You Paid (See page A-1.)	5	State and local income taxes	5	1,320 00		
	6	Real estate taxes (see page A-2)	6	1,240 00		
	7	Other taxes. List—include personal property taxes ▶	7			
	8	Add lines 5 through 7 ▶			8	2,560 00
Interest You Paid (See page A-2.)	9a	Home mortgage interest and points reported to you on Form 1098	9a	4,500 00		
	b	Home mortgage interest not reported to you on Form 1098. If paid to an individual, show that person's name and address. ▶	9b			
Note: Personal interest is not deductible.	10	Points not reported to you on Form 1098. See page A-3 for special rules	10			
	11	Investment interest. If required, attach Form 4952. (See page A-3.)	11			
	12	Add lines 9a through 11 ▶			12	4,500 00
Gifts to Charity (See page A-3.)		**Caution:** *If you made a charitable contribution and received a benefit in return, see page A-3.*				
	13	Contributions by cash or check	13	1,200 00		
	14	Other than by cash or check. If over $500, you **MUST** attach Form 8283	14			
	15	Carryover from prior year	15			
	16	Add lines 13 through 15 ▶			16	1,200 00
Casualty and Theft Losses	17	Casualty or theft loss(es). Attach Form 4684. (See page A-4.) ▶			17	
Moving Expenses	18	Moving expenses. Attach Form 3903 or 3903F. (See page A-4.) ▶			18	
Job Expenses and Most Other Miscellaneous Deductions (See page A-5 for expenses to deduct here.)	19	Unreimbursed employee expenses—job travel, union dues, job education, etc. If required, you **MUST** attach Form 2106. (See page A-4.) ▶	19			
	20	Other expenses—investment, tax preparation, safe deposit box, etc. List type and amount ▶	20			
	21	Add lines 19 and 20	21			
	22	Enter amount from Form 1040, line 32. 22				
	23	Multiply line 22 above by 2% (.02)	23			
	24	Subtract line 23 from line 21. If zero or less, enter -0- ▶			24	
Other Miscellaneous Deductions	25	Other—from list on page A-5. List type and amount ▶			25	
Total Itemized Deductions	26	Is the amount on Form 1040, line 32, more than $105,250 (more than $52,625 if married filing separately)? • **NO.** Your deduction is not limited. Add lines 4, 8, 12, 16, 17, 18, 24, and 25. • **YES.** Your deduction may be limited. See page A-5 for the amount to enter. ▶			26	9,210 00
		Caution: *Be sure to enter on Form 1040, line 34, the* ***LARGER*** *of the amount on line 26 above or your standard deduction.*				

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11330X **Schedule A (Form 1040) 19--**

TRY YOUR SKILLS

Suppose that the Enterprises had made no contribution to their IRAs. Find what effect, if any, that would have had on each of the following.

1. Their adjusted gross income
2. Their medical deduction
3. Their mortgage deduction
4. Their total deductions
5. Their taxable income
6. Their tax
7. Their total payments (line 60)
8. Their refund

EXERCISE YOUR SKILLS

1. Why should taxpayers be informed about income tax laws even when they choose to have someone fill out their forms for them?
2. Why should taxpayers with complicated tax work use a certified public accountant who specializes in taxes?
3. When should taxpayers file a Schedule A instead of claiming the standard deduction?

KEY TERM

tax preparation software

Use the information provided for the two families below to answer Exercises 4–16. The numbers in parentheses are Social Security numbers.

(465–88–1033) (543–66–7121)
Howard and Florence Charisma
4565 Gulfstream
Panama Beach, Florida 32233
Wages: Howard, $37,800
Florence, $21,866
Withheld: from Howard, $4020
from Florence, $1992
Interest income: $250
Dividend income: $300
IRA for Florence: $2000

Dependents:
Loren, age 5 (305–67–7868)
Charlie, age 18 (690–13–9870)

Itemized deductions:
Medical expenses: $6500
Real-estate taxes: $1200
Mortgage interest on home: $6420
Contributions: $1300

(143–68–2569) (390–22–1378)
Macon and Milly Logan
12322 Commonwealth Avenue
Boston, Massachusetts 02108
Wages: Macon, $44,000
Milly, $31,700
Withheld: from Macon, $5440
from Milly, $4200
Interest income: $375
Dividend income: $200
IRA for Macon and Milly: $4000
(Neither Macon nor Milly has a pension plan at work.)

Dependents:
Molly, age 17 (531–22–3657)
Mark, age 17 (531–22–3656)

Itemized deductions:
Medical expenses: $700
Real-estate taxes: $2253
Local income taxes: $4000
Mortgage interest on home: $7564
Contributions: $1600

4. Complete the first page of Form 1040 for Howard and Florence Charisma to find their adjusted gross income to the nearest dollar.
5. Complete Schedule A for the Charismas to find their total itemized deductions to the nearest dollar.
6. Complete page 2 of Form 1040 for the Charismas to find their tax owed or refund due to the nearest dollar.
7. Complete the first page of Form 1040 for Macon and Milly Logan to find their adjusted gross income to the nearest dollar.
8. Complete Schedule A for the Logans to find their total itemized deductions to the nearest dollar.
9. Complete page 2 of Form 1040 for the Logans to find their tax owed or refund due to the nearest dollar.

Mr. Charisma expects to be self-employed next year, earning the same amount of money as this year. He must fill out a Schedule C form for self-employed persons. However, you are not expected to fill out Schedule C to answer questions 10–13.

10. If he earns $37,800 next year, on which line of Form 1040 will he enter his business income as a self-employed person?
11. If Mr. Charisma becomes self-employed, he will be able to start a Keogh plan (self-employment retirement plan) by contributing 20% of his earnings to the plan each year. On which line of Form 1040 will he enter his contribution?
12. Prepare a Form 1040 and a Schedule A for the Charisma family to show their adjusted gross income, their total itemized deductions, and their tax owed or refund due to the nearest dollar next year when Mr. Charisma is self-employed with a Keogh plan. Assume that all of the earnings and expenses are the same as for this year. Note that Mr. Charisma is both an employer and an employee, so his FICA, or self-employment tax (line 47) is calculated at the rate of $2 \bullet 7.65\%$, or 15.3%. One-half of his self-employment tax (line 25) is half of the line 47 entry. You may assume that Mr. Charisma's estimated tax payments (line 55) are the same as what his withheld taxes had been in Exercises 4–6.
13. How much money will the Charisma family save on taxes next year because of the Keogh plan?
14. Suppose that Mr. and Mrs. Logan had not contributed to their IRAs this year. How much more would they have paid in taxes?
15. Suppose that instead of owning their own home, the Logans were renting a house and paying $9817 in rent. (This is the total of their current real-estate taxes and mortgage interest.) Would they find it worthwhile to use Schedule A?
16. Use the assumptions of Exercises 15 to find out how much more or how much less the Logans would pay in taxes if they were renting instead of owning.