

Problem 36 [LO 1, LO 2] In each of the following independent cases, indicate the amount (1) deductible for AGI, (2) deductible from AGI, and (3) deductible neither for nor from AGI before considering income limitations or the standard deduction.

Fran spent \$90 for uniforms for use on her job. Her employer reimbursed her for \$75 of this amount under an accountable plan (and did not report the reimbursement as wages).

Answer: Not deductible. The unreimbursed employee business expenses of \$15 are not deductible. Income and expenses associated with the \$75 reimbursement from an accountable plan completely offset each other and are ignored. Note that the accountable plan only reimburses business (not personal) expenses.

Timothy, a plumber employed by ACE Plumbing, spent \$65 for small tools to be used on his job, but he was not reimbursed by ACE.

Answer: Not deductible. The unreimbursed employee business expenses of \$65 are not deductible.

Jake is a perfume salesperson. Because of his high pay, he receives no allowance or reimbursement from his employer for advertising expenses even though his position requires him to advertise frequently. During the year, he spent \$2,200 on legitimate business advertisements.

Answer: Not deductible. The unreimbursed employee business expenses of \$2,200 are not deductible.

Trey is a self-employed, special-duty nurse. He spent \$120 for uniforms.

Answer: \$120 for AGI deduction as a business expense assuming that the special duty uniforms cannot be adapted to normal use.

Mary, a professor at a community college, spent \$340 for journal subscriptions. The journals were helpful for her research activities, but she was not reimbursed for the expenditures.

Answer: Not deductible. The unreimbursed employee business expenses of \$340 are not deductible.

Wayne lost \$325 on the bets he made at the race track, but he won \$57 playing slot machines.

Answer: \$57 from AGI as an other itemized deduction. Wayne's gambling loss deduction is limited to his winnings. The remaining \$268 is not deductible.

Comp Problem 62 {Tax Forms} Read the following letter and help Shady Slim with his tax situation. Please assume that gross income is \$172,900 (which consists only of salary) for purposes of this problem.

December 31, 2025

To the friendly student tax preparer:

Hi, it's Shady Slim again. I just got back from my 55th birthday party, and I'm told that you need some more information from me in order to complete my tax return. I'm an open book! I'll tell you whatever I think you need to know.

Let me tell you a few more things about my life. As you may recall, I am divorced from my wife, Alice. I know that it's unusual, but I have custody of my son, Shady Jr. The judge owed me a few favors and I really love the kid. He lives with me full time and my ex-wife gets him every other weekend. I pay the vast majority of my son's expenses. I think Alice should have to pay some child support, but she doesn't have to pay a dime. The judge didn't owe me that much, I guess.

I had to move this year after getting my job at Roca Cola. We moved on February 3 of this year, and I worked my job at Roca Cola for the rest of the year. I still live in the same state, but I moved 500 miles away from my old house. I hired a moving company to move our stuff at a cost of \$2,300, and I drove Junior in my car. Junior and I got a hotel room along the way that cost us \$65 (I love Super 8!).

Can you believe I'm still paying off my student loans, even after 15 years? I paid a total of \$900 in interest on my old student loans this year.

Remember when I told you about that guy that hit me with his car? I had a bunch of medical expenses that were not reimbursed by the lawsuit or by my insurance. I incurred a total of \$20,000 in medical expenses, and I was only reimbursed for \$11,000. Good thing I can write off medical expenses, right?

I contributed a lot of money to charity this year (and have receipt documentation for all contributions). I'm such a nice guy! I gave \$1,000 in cash to the March of Dimes. I contributed some of my old furniture to the church. It was some good stuff! I contributed a red velvet couch and my old recliner. The furniture is considered vintage and is worth \$5,000 today (the appraiser surprised me!), even though I only paid \$1,000 for it back in the day. When I contributed the furniture, the pastor said he didn't like the fabric and was going to sell the furniture to pay for some more pews in the church. Oh well, some people just have no taste, right? Roca Cola had a charity drive for the United Way this year and I contributed \$90. Turns out, I don't even miss it because Roca Cola takes it right off my paycheck every month...\$15 a month starting in July. My pay stub verifies that I contributed the \$90 to the United Way. Oh, one other bit of charity

from me this year. An old buddy of mine was down on his luck. He lost his job and his house. I gave him \$500 to help him out.

I paid a lot of money in interest this year. I paid a total of \$950 in personal credit card interest. I also paid \$18,000 in interest on my \$500,000 home mortgage that helped me buy my dream home. I also paid \$5,000 in real estate taxes for my new house.

A few other things I want to tell you about this year. Someone broke into my house and stole my kid's brand new bicycle and my set of golf clubs. The total loss from theft was \$900. I paid \$125 in union dues this year. I had to pay \$1,200 for new suits for my job. Roca Cola requires its managers to wear suits every day on the job. I spent a total of \$1,300 to pay for gas to commute to my job this year.

Oh, this is pretty cool. I've always wanted to be a firefighter. I spent \$1,400 in tuition to go to the local firefighter's school. I did this because someone told me that I can deduct the tuition as an itemized deduction, so the money would be coming back to me.

That should be all the information you need right now. Please calculate my taxable income and complete page 1 of Form 1040 (through taxable income, line 15) and Schedule A. You're still doing this for free, right?

Taxable income is \$150,810, computed as follows:

<i>Gross Income</i>		<i>\$ 172,900</i>
<i>AGI</i>		<i>\$ 172,900</i>
<i>Itemized Deductions:</i>		
<i>Medical Expenses</i>	<i>0</i>	
<i>Mortgage Interest</i>	<i>18,000</i>	
<i>Real Estate Taxes</i>	<i>5,000</i>	
<i>Charitable Contributions</i>	<i><u>2,090</u></i>	<i><u>-25,090</u></i>
<i>Taxable Income</i>		<i><u>\$ 147,810</u></i>

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20 _____ See separate instructions.

Your first name and middle initial: **Shady** Last name: **Slim** Your social security number: **1 1 1 | 1 1 1 | 1 1 1 1**

If joint return, spouse's first name and middle initial: _____ Last name: _____ Spouse's social security number: _____

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. **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.
 You Spouse

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code

Foreign country name Foreign province/state/county Foreign postal code

Filing Status Single Head of household (HOH)
 Married filing jointly (even if only one had income)
 Married filing separately (MFS) Qualifying surviving spouse (QSS)
 Check only one box.
 If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____
 If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1960 Are blind **Spouse:** Was born before January 2, 1960 Is blind

Dependents (see instructions):

If more than four dependents, see instructions and check here <input type="checkbox"/>	(1) First name Last name		(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	
					Child tax credit	Credit for other dependents
	Shady Slim, Jr.		2 2 2 2 2 2 2 2 2 2	Son	<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	172,900
b Household employee wages not reported on Form(s) W-2	1b	
c Tip income not reported on line 1a (see instructions)	1c	
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e Taxable dependent care benefits from Form 2441, line 26	1e	
f Employer-provided adoption benefits from Form 8839, line 29	1f	
g Wages from Form 8919, line 6	1g	
h Other earned income (see instructions)	1h	
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h	1z	172,900

Attach Sch. B if required.

2a Tax-exempt interest	2a		b Taxable interest	2b	
3a Qualified dividends	3a		b Ordinary dividends	3b	
4a IRA distributions	4a		b Taxable amount	4b	
5a Pensions and annuities	5a		b Taxable amount	5b	
6a Social security benefits	6a		b Taxable amount	6b	
c If you elect to use the lump-sum election method, check here (see instructions)					
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here				7	
8 Additional income from Schedule 1, line 10				8	
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9	172,900
10 Adjustments to income from Schedule 1, line 26				10	
11 Subtract line 10 from line 9. This is your adjusted gross income				11	172,900
12 Standard deduction or itemized deductions (from Schedule A)				12	25,090
13 Qualified business income deduction from Form 8995 or Form 8995-A				13	
14 Add lines 12 and 13				14	25,090
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income				15	147,810

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.

Go to www.irs.gov/ScheduleA for instructions and the latest information.

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074

2024
Attachment
Sequence No. **07**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

Shady Slim

111-11-1111

Medical and Dental Expenses		Caution: Do not include expenses reimbursed or paid by others.			
1	Medical and dental expenses (see instructions)	1	9,000		
2	Enter amount from Form 1040 or 1040-SR, line 11	2	172,900		
3	Multiply line 2 by 7.5% (0.075)	3	12,968		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4			0
Taxes You Paid		5 State and local taxes.			
		a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input type="checkbox"/>		5a	
		b State and local real estate taxes (see instructions)		5b	5,000
		c State and local personal property taxes		5c	
		d Add lines 5a through 5c		5d	5,000
		e Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing separately)		5e	5,000
		6 Other taxes. List type and amount:		6	
		7 Add lines 5e and 6		7	5,000
Interest You Paid		8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/>			
Caution: Your mortgage interest deduction may be limited. See instructions.		a Home mortgage interest and points reported to you on Form 1098. See instructions if limited		8a	18,000
		b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address		8b	
		c Points not reported to you on Form 1098. See instructions for special rules		8c	
		d Reserved for future use		8d	
		e Add lines 8a through 8c		8e	
		9 Investment interest. Attach Form 4952 if required. See instructions		9	
		10 Add lines 8e and 9		10	18,000
Gifts to Charity		11 Gifts by cash or check. If you made any gift of \$250 or more, see instructions		11	1,090
Caution: If you made a gift and got a benefit for it, see instructions.		12 Other than by cash or check. If you made any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500		12	1,000
		13 Carryover from prior year		13	
		14 Add lines 11 through 13		14	2,090
Casualty and Theft Losses		15 Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		15	
Other Itemized Deductions		16 Other—from list in instructions. List type and amount:		16	
Total Itemized Deductions		17 Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12		17	25,090
		18 If you elect to itemize deductions even though they are less than your standard deduction, check this box <input type="checkbox"/>			