

LINDA KEITH, CPA



TAX RETURN ANALYSIS: ESSENTIALS AND 1040 REVIEW

EXERCISE: DRILLER 1040

Fold page in half lengthwise so you cannot read it until you have analyzed the return!

FOLD PAGE LENGTHWISE ALONG THE DOTTED LINE AND THEN READ PAGE 3-3.

SCHEDULE C INTEREST EXPENSE

The \$790 interest on Schedule C is interest on an equipment loan that was paid off in 2011. The car and truck expense line did not include interest expense on a vehicle. There are no vehicle loans.

SCHEDULE C TAXES AND LICENSES

Mr. Driller had employees in 2009 but the bookkeeper did not pay all of the payroll taxes for them. The taxes paid this year of \$19,770 included nonrecurring back taxes in the amount of \$6,328.

[Note: the only way you would have spotted this is if you thought this was too high for taxes and licenses for this type or size business, or this level of wages. Or you would have seen it if you were digging for dollars and had both year's tax returns to compare.]

So, do not worry if you did not ask about it. Now that you know about it, though, you can document that the tax figure on Schedule C has a nonrecurring component. Add back the nonrecurring portion of taxes.

SCHEDULE E RENTAL PAYMENTS

Their payments on the Money Road rental are \$244.25 per month PI only. We chose the optional method for making no adjustment on rental payments so you do not use this information.

If you compare the annual payments to the interest last year, you may be puzzled that the full payments now are less than interest was last year. That is what it looks like when they refinance into lower payments.

They did not carry a RE contract on the two rentals they sold. They used the proceeds from the sales to pay college tuition for their nephews.

**To do:**

Whether you are in the workshop with me or using this manual on your own, here are your instructions.

Immediately fold the page 3-2 in half lengthwise so you cannot read it until AFTER you have worked on this return by yourself. That way you will have a fresh point of view in deciding what questions you need to ask.

The worksheets you need are on the following pages. Pick either AGI or S/A method for the first page of your worksheet. The Schedule C, Rentals and Question sheets are the same for both. Before you start, feel free to review the types of adjustments and suggested procedures in Section 1 of the manual.

As you review the return for Gerald and Geraldine Driller, write questions for anything you cannot learn from the tax return, such as loan payments. [Catch that? It was a hint!]

**SELF-STUDY STUDENTS:**

If you have not already done so, complete the Fashion tax return exercise in Section 2 of the manual.

If you do not understand a topic, review the additional help for that item in Section 2.

When you are ready to try this case-study, follow the instructions above.

When you have gone through the entire return, unfold page 3-2 and refer to the additional information to answer your questions.

If you come up with questions I did not ask, assume an answer that will require no adjustment. You will benefit from this exercise the most if you DON'T look at the information until you have worked through the return yourself.

Based on the return and additional information, complete your worksheet. Then compare it with the solution in Section 5.

IN-CLASS CASE STUDY INSTRUCTIONS:

- Use the ROADTRIP approach, circles, checkmarks and format for questions you have learned in class
- Wages are stable and are comparable to gross wages from the pay stub. (See W-2 on page 3-20).
- Total interest is stable.
- They sold Renters Row and Nice Court early this year.
- They've owned Money road for five years.
- Rentals...we'll take the (easy) optional approach. Do not make any payment adjustments or add back interest, taxes and insurance. We'll assume the interest is close enough to the full payments.

* From another worksheet.

AGI: This is your starting point.
 1) Every item that is already in AGI needs no further adjustment.
 2) For historical/actual cashflow:
 Add **nontaxed** income and **noncash** deductions. Subtract **nondeducted** expenses and **noncash** income.
 3) For projected/recurring cashflow:
 Add **nontaxed** or **new** income. Add back **noncash** and **nonrecurring** deductions. Subtract **nondeducted** and **new** expenses, **noncash** and **nonrecurring** income. Also subtract **nondocumented** income.

Ln 7 Wages: Adjust to current per W-2 Line 5 or year-end paystub. ...

Ln 13 Capital Gains: Historical or recurring cashflow? Recurring or not? Stock or Real Estate? Check your guidelines and/or manual for treatment. ...

Ln 17 Rents, Partnerships, etc:
 1) On the next line, subtract the gain or add back the loss listed on Line 17. This is an elimination step.
 2) Replace it with expected cashflow from next 5 lines on w/s. ...

CAUTION: Use either K-1 Summary **OR** cashflow from pass-through entities **NOT** both....

Ln 21 Other Income/NOL's:
 1) Subtract nonrecurring income.
 2) Add back Net Operating Loss. ...

Other/Adjustments: Most AGI lenders either add back 1/2 SE Tax and subtract total tax from page two, or make no adjustment for 1/2 SE tax. **CHECK YOUR GUIDELINES!**
'Other' lines can be used to subtract federal/state tax, alimony/child support, family living, personal debt. Again...check your guidelines!

Comments: Explain calculations or source of figures. List income you did not include or document because you do not think it is needed to qualify for this loan.

		Year:
AGI	37	
Adjust the following only if needed to adjust to cashflow:		
+/- Wage Adj	7	
C-Corp Owner from w/s	1120 Tax Return	*
+/- Interest Adj	8a/Sch B	
Add Full Note pmnts rec'd	From client	
Add Tax-exempt	8b	
+/- Dividends Adj	9/Sch B	
Subtract * State Tax	10	
+/- Alimony Adj	11	
Sch C Business from w/s	12/ Sch C	*
+/- Cap Gains (Loss)	13/Sch D	
+/- Other Gains (Losses)	14/Form 4797	
+/- IRA Distributions	15	
+/- Pension Distributions	16	
Rents, Pships,etc		
Subtract gains/add losses	17	
Rental C/F from w/s	Sch E, Pg 1	*
K-1 Summary	Sch E, Pg 2	*
Partnership C/F from w/s	Sch E, Pg 2	*
S Corp C/F from w/s	Sch E, Pg 2	*
Add* Estates/Trusts	Sch E, Pg 2	
Sch F Farm from w/s	18/Sch F	*
Subtract * Unemp. Comp	19	
+/- Social Security	20	
+/- Other Income/NOL's	21	
Add Adjustments per guidelines	23-35	
Other Explain:		
ie: AGI Add back All Adj.		
ie: 1/2 SE Tax		
ie: minus Fed/State Tax		
ie: minus Family Living		
ie: minus personal debt		
Annual Cashflow		
Monthly Cashflow		

COMMENTS:

Ln 7 Wages: Use current. Consider W-2 Line 5 or year-end paystub. ... NOTE: If your worksheets have a different place for wages not from self-employment (FannieMae) do not enter them here. ...

Ln 8 Interest: Check guidelines or see manual for treatment of contract and k-1 pass-thru interest. Schedule B is not required if taxable interest is less than \$1,500. ...

Tax-exempt: Unless you subtract federal taxes, consider multiplying by 1.25 before you add any nontaxed income to cashflow. ...

Ln 13 Capital Gains: Actual or Projected? Recurring or Nonrecurring? Check guidelines for numbers to use and documentation required. Enter zero if not using to qualify.

Ln 17 Rents, Pships, etc: Ignore the gain or loss listed on Line 17. Enter cashflow from rentals, partnerships, s corporations, estates and trusts on the lines that follow.

CAUTION: Use either K-1 Summary OR cashflow from pass-through entities NOT both.

Ln 21 Other Income/NOL's: **Actual:** Enter income but do not include **noncash** NOL. **Projecting:** Enter zero if nonrecurring income or Net Operating Loss (NOL). ...

Other Explain: The following lines are available to make entries specific to your tax return analysis guidelines.

Examples:

- Subtract 1/2 SE tax or Federal/State Income Tax
- Subtract personal debt
- Subtract child support/alimony
- Subtract family living expenses

Check your guidelines!

* From another worksheet

		Year:
Wages	7	
<u>C-Corp Owner from W/S</u>	1120 Tax Return	*
Interest	8a/Sch B	
Full Note pmnts rec'd	from client	
Tax-exempt	8b	
Dividends	9/Sch B	
State Tax	10	
Alimony Received	11	
<u>Sch C Business from W/S</u>	12/ Sch C	*
Capital Gains (Loss)	13/Sch D	
Other Gains	14/Form 4797	
IRA Distributions	15	
Pension Distributions	16	
Rents, Pships, etc		XXXXXX
Do not use.	17	XXXXXX
<u>Rental C/F from W/S</u>	17/Sch E, Pg 1	*
<u>K-1 Summary</u>	17/Sch E, Pg 2	*
<u>Partnership C/F from w/s</u>	17/Sch E, Pg 2	*
<u>S Corp C/F from W/S</u>	17/Sch E, Pg 2	*
Estates/Trusts	17/Sch E, Pg 2	
<u>Sch F Farm from W/S</u>	18/Sch F	*
Unemployment Comp	19	
Social Security	20	
Other Income/NOL's	21	
Other Explain:		XXXXXX
ie: minus 1/2 SE Tax		
ie: minus Fed/State Tax		
ie: minus Family Living		
ie: minus personal debt		
Annual Cashflow		-----
Monthly Cashflow		

COMMENTS:

Comments: Explain calculations or numbers from other sources. List income you do not document and use because you do not need it to qualify.

Schedule Analysis Method: Enter Net Profit
AGI Method: Do not enter net profit. It is already in AGI.

Interest Expense: Add back to eliminate it. Then subtract loan payments below or enter them on the debt list for debt coverage ratio.

Term Debt: This information is not on the 1040 tax return. You must get the monthly debt payments from the borrower's application, credit report or other records. Be careful that you do not count a payment against the business here **and** count it on their personal debt list. One place or the other, not both. If you want to be sure that the amount of cashflow you carry forward to the personal analysis leaves adequate debt coverage in place, consider multiplying the annual debt payments X 1.2 or whatever debt coverage you need. This is most commonly done by commercial lenders. Check your guidelines.

LOC (Line of Credit): Line of Credit (LOC) interest-only payments are simply 'rent' on a short-term use of credit.
1) Three common methods
a) Subtract annual interest-only payments.
b) Subtract the annual interest payments that would occur if they borrow the entire available line and keep it out all year.
c) Some financial institutions substitute assumed term debt payments for LOC interest only payments, especially if the LOC is not seasoned. Term outs over three to five years are common. ...

1040 Schedule C Cashflow Worksheet

Business Name and Type>>>

	Year>>>	
Net Profit (NOT AGI METHOD!!!)	Line 31	
Add back noncash depreciation.	Line 13	
Add back interest expense.*	Line 16	
Subtract term debt.**	Borrower	
Subtract line of credit interest-only.**	Borrower	
Subtract proposed payments.	Borrower	
Subtract nondeducted meals	Line 24b	
Add noncash home office	Line 30	
Optional: Subtract 20% Debt for 1.2 DCR		
+/- Additional adjustments.		
Total AGI Adjustments or S/A Cashflow		

* FannieMae and many secondary-market mortgage lenders do not add back interest or subtract business debt.

** Subtract debt for net cashflows to owner. Omit debt if calculating debt coverage. CAUTION: Need Owner's Draws to calculate debt coverage.

Comments:

Rentals Summary Sheet
*** Payment Adjustment:**
 May not be required.
 Common: -PITI + Int + Tax + Ins
 Common debt shortcut: Interest X
 1.15 (or / .85)
**** Formula automatically calculates:**
 Rents X 12 X % Factor
 Subtract PITI X 12

Year: _____
 Borrower Name: _____

Tax Return Method

+ - +/- +/- =

Formula Method

Excel Help> Right Click & 'Show Comment'
 Enter vacancy/costs factor once:

Formula Method

Note: Will not calculate if Tax Return Method is completed for same property.

Rental Address	Still Owned: Yes/No	% Own	Line 3 & 4 Income	Line 19 Expenses (Enter as -)	Payment Adjustment *	Other ('11 Depreciation, Nonrecurring, amortization, etc... explain in comment column)	Actual Net cash flow from/(to) entry

***Payment Adjustment Calculation:**
 Subtract Annual Payments
 Add back Interest (Line 12)
 If PITI Payment:
 Add back Taxes (Line 16)
 Add back Insurance (Line 9)
Payment Adjustment

Monthly Scheduled Rents	Vacancy/Costs % Factor Enter in Cell O2 Above	Monthly PITI Payments	Calculated Net cash flow from/(to) entry **
OR			
OR	%		
OR	%		
OR			

****Formula Method Calculation:**
 Monthly Rent X 75% X 12
 Subtract Monthly Payment X 12
Calculated Net Cash Flow

Total

Prepared by>>
Spoke with & date:
Question #:
Source of question:
Question for whom:
Question/Item:
Documentation needed:
Response:

Question #:
Source of question:
Question for whom:
Question/Item:
Documentation needed:
Response:

Question #:
Source of question:
Question for whom:
Question/Item:
Documentation needed:
Response:

Question #:
Source of question:
Question for whom:
Question/Item:
Documentation needed:
Response:

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2011** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2011, or other tax year beginning _____, 2011, ending _____, 20

Your first name and initial: **Gerald S** Last name: **Driller** Your social security number: **444-76-9494**

If a joint return, spouse's first name and initial: **Geraldine A** Last name: **Driller** Spouse's social security number: **555-15-9494**

Home address (number and street). If you have a P.O. box, see instructions. **1415 Well Rd N** Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). **Drilltown WA 98502**

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

Filing Status

1 Single

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse's SSN above and full name here. ▶

4 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 Qualifying widow(er) with dependent child

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a

6b Spouse

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see instructions and check here

d Total number of exemptions claimed **2**

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2	7	48,000.
8a Taxable interest. Attach Schedule B if required	8a	320.
b Tax-exempt interest. Do not include on line 8a	8b	5,000.
9a Ordinary dividends. Attach Schedule B if required	9a	
b Qualified dividends	9b	
10 Taxable refunds, credits, or offsets of state and local income taxes	10	
11 Alimony received	11	
12 Business income or (loss). Attach Schedule C or C-EZ	12	43,853.
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	1,950.
14 Other gains or (losses). Attach Form 4797	14	
15a IRA distributions	15a	
b Taxable amount	15b	
16a Pensions and annuities	16a	
b Taxable amount	16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	-2,485.
18 Farm income or (loss). Attach Schedule F	18	
19 Unemployment compensation	19	
20a Social security benefits	20a	
b Taxable amount	20b	
21 Other income. List type and amount <u>Lottery</u>	21	480.
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	92,118.

Adjusted Gross Income

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	3,097.
28 Self-employed SEP, SIMPLE, and qualified plans	28	
29 Self-employed health insurance deduction	29	6,000.
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	9,097.
37 Subtract line 36 from line 22. This is your adjusted gross income ▶	37	83,021.

Form 1040 (2011)

Page 2

Main tax form grid with sections: Tax and Credits (38-55), Other Taxes (56-61), Payments (62-72), Refund (73-75), Amount You Owe (76-77). Includes sub-sections like Earned income credit (EIC) and Standard Deduction for.

Third Party Designee section: Do you want to allow another person to discuss this return with the IRS (see instructions)? [] Yes. Complete below. [X] No

Sign Here section: 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.

Paid Preparer Use Only section: 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 C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2011
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

► **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.**

Name of proprietor Gerald S Driller		Social security number (SSN) 444-76-9494
A Principal business or profession, including product or service (see instructions) Well Drilling	B Enter code from instructions 2 3 8 9 9 0	
C Business name. If no separate business name, leave blank. Driller Pump & Well Drilling	D Employer ID number (EIN), (see instr.) 9 1 1 2 3 4 5 6 7	
E Business address (including suite or room no.) ► 1415 Well Rd N City, town or post office, state, and ZIP code Drilltown, WA 98502		
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input checked="" type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►		
G Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2011, check here <input type="checkbox"/>		
I Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
J If "Yes," did you or will you file all required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No		

Part I Income

1a Merchant card and third party payments. For 2011, enter -0-	1a	0.
b Gross receipts or sales not entered on line 1a (see instructions)	1b	172,040.
c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. Caution. See instr. before completing this line	1c	
d Total gross receipts. Add lines 1a through 1c	1d	172,040.
2 Returns and allowances plus any other adjustments (see instructions)	2	
3 Subtract line 2 from line 1d	3	172,040.
4 Cost of goods sold (from line 42)	4	41,256.
5 Gross profit. Subtract line 4 from line 3	5	130,784.
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	130,784.

Part II Expenses

Enter expenses for business use of your home only on line 30.

8 Advertising	8	4,608.	18 Office expense (see instructions)	18	738.
9 Car and truck expenses (see instructions)	9	7,127.	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	6,696.	21 Repairs and maintenance	21	6,065.
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15	4,610.	23 Taxes and licenses	23	19,770.
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b	790.	b Deductible meals and entertainment (see instructions)	24b	1,613.
17 Legal and professional services	17	1,665.	25 Utilities	25	960.
			26 Wages (less employment credits)	26	30,980.
			27a Other expenses (from line 48)	27a	355.
			b Reserved for future use	27b	

28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28	85,977.
29 Tentative profit or (loss). Subtract line 28 from line 7	29	44,807.
30 Expenses for business use of your home. Attach Form 8829 . Do not report such expenses elsewhere	30	954.
31 Net profit or (loss). Subtract line 30 from line 29.	31	43,853.
<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 entered an amount on line 1c, see instr. 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 entered an amount on line 1c, see the instructions for line 31. 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. **BAA**

REV 01/11/12 TTW

Schedule C (Form 1040) 2011

Schedule C (Form 1040) 2011

Page **2**

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a <input checked="" type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)		
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	10,088 .
36	Purchases less cost of items withdrawn for personal use	36	36,035 .
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	5,660 .
39	Other costs	39	
40	Add lines 35 through 39	40	51,783 .
41	Inventory at end of year	41	10,527 .
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	41,256 .

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

43	When did you place your vehicle in service for business purposes? (month, day, year) ▶ _____
44	Of the total number of miles you drove your vehicle during 2011, enter the number of miles you used your vehicle for: a Business _____ b Commuting (see instructions) _____ c Other _____
45	Was your vehicle available for personal use during off-duty hours? <input type="checkbox"/> Yes <input type="checkbox"/> No
46	Do you (or your spouse) have another vehicle available for personal use?. <input type="checkbox"/> Yes <input type="checkbox"/> No
47a	Do you have evidence to support your deduction? <input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No

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

Conferences	235 .
Dues	120 .
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
48 Total other expenses. Enter here and on line 27a	48 355 .

**SCHEDULE D
(Form 1040)**

Capital Gains and Losses

OMB No. 1545-0074

2011
Attachment
Sequence No. **12**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.** ▶ **See Instructions for Schedule D (Form 1040).**
▶ **Use Form 8949 to list your transactions for lines 1, 2, 3, 8, 9, and 10.**

Name(s) shown on return

Gerald S & Geraldine A Driller

Your social security number

444-76-9494

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

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

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

Complete Form 8949 before completing line 8, 9, or 10. This form may be easier to complete if you round off cents to whole dollars.	(e) Sales price from Form(s) 8949, line 4, column (e)	(f) Cost or other basis from Form(s) 8949, line 4, column (f)	(g) Adjustments to gain or loss from Form(s) 8949, line 4, column (g)	(h) Gain or (loss) Combine columns (e), (f), and (g)
8 Long-term totals from all Forms 8949 with box A checked in Part II		()		
9 Long-term totals from all Forms 8949 with box B checked in Part II	9,750.	(7,800.)		1,950.
10 Long-term totals from all Forms 8949 with box C checked in Part II		()		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (h). Then go to Part III on the back				15 1,950.

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

REV 11/22/11 TTW

Schedule D (Form 1040) 2011

Part III Summary

<p>16 Combine lines 7 and 15 and enter the result</p> <ul style="list-style-type: none"> • If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22. 	16	1,950.
<p>17 Are lines 15 and 16 both gains? <input checked="" type="checkbox"/> Yes. Go to line 18. <input type="checkbox"/> No. Skip lines 18 through 21, and go to line 22.</p>		
<p>18 Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions . . . ▶</p>	18	
<p>19 Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet in the instructions ▶</p>	19	
<p>20 Are lines 18 and 19 both zero or blank? <input checked="" type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below. <input type="checkbox"/> No. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.</p>		
<p>21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of:</p> <ul style="list-style-type: none"> • The loss on line 16 or • (\$3,000), or if married filing separately, (\$1,500) } <p>Note. When figuring which amount is smaller, treat both amounts as positive numbers.</p>	21 ()	
<p>22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? <input type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 41. Then complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). <input type="checkbox"/> No. Complete the rest of Form 1040 or Form 1040NR.</p>		

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Supplemental Income and Loss

(From rental real estate, royalties, partnerships,
S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ See separate instructions.

OMB No. 1545-0074

2011

Attachment
Sequence No. **13**

Name(s) shown on return

Gerald S & Geraldine A Driller

Your social security number

444-76-9494

- A** Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) Yes No
B If "Yes," did you or will you file all required Forms 1099? Yes No

Part I **Income or Loss From Rental Real Estate and Royalties** **Note.** If you are in the business of renting personal property, use **Schedule C or C-EZ** (see instructions). If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

Caution. For each rental property listed on line 1, check the box in the last column only if you owned that property as a member of a qualified joint venture (QJV) reporting income not subject to self-employment tax.

1	Physical address of each property—street, city, state, zip	Type—from list below	2	For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions.	Fair Rental Days	Personal Use Days	QJV
A	205 Money Rd N NextTown WA	1			A 320	0	
B	123 Nice Ct Drilltown WA	1			B 365	0	
C	788 Renter Row Drillburg WA	1			C 360	0	

Type of Property:

- 1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
 2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe)

Income:		Properties		
		A	B	C
3a	Merchant card and third party payments. For 2011, enter -0-	0.	0.	0.
b	Payments not reported to you on line 3a	7,683.	6,289.	6,777.
4	Total not including amounts on line 3a that are not income (see instructions)	7,683.	6,289.	6,777.
Expenses:				
5	Advertising	13.	29.	
6	Auto and travel (see instructions)	397.	2,243.	504.
7	Cleaning and maintenance			
8	Commissions.			
9	Insurance	240.	248.	238.
10	Legal and other professional fees			
11	Management fees			
12	Mortgage interest paid to banks, etc. (see instructions)	3,003.	1,732.	4,764.
13	Other interest.			
14	Repairs.	179.	228.	
15	Supplies		666.	
16	Taxes	706.	2,578.	891.
17	Utilities	449.		410.
18	Depreciation expense or depletion	1,692.	1,133.	891.
19	Other (list) ▶ _____			
20	Total expenses. Add lines 5 through 19	6,679.	8,857.	7,698.
21	Subtract line 20 from line 4. If result is a (loss), see instructions to find out if you must file Form 6198	1,004.	-2,568.	-921.
22	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	()	(2,568.)	(921.)
23a	Total of all amounts reported on line 3a for all rental properties		0.	
b	Total of all amounts reported on line 3a for all royalty properties			
c	Total of all amounts reported on line 4 for all rental properties		20,749.	
d	Total of all amounts reported on line 4 for all royalty properties			
e	Total of all amounts reported on line 12 for all properties		9,499.	
f	Total of all amounts reported on line 18 for all properties		3,716.	
g	Total of all amounts reported on line 20 for all properties		23,234.	
24	Income. Add positive amounts shown on line 21. Do not include any losses			1,004.
25	Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here			(3,489.)
26	Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2			-2,485.

**SCHEDULE SE
(Form 1040)**

Self-Employment Tax

OMB No. 1545-0074

2011
Attachment
Sequence No. **17**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.** ▶ **See separate instructions.**

Name of person with **self-employment** income (as shown on Form 1040)

Social security number of person
with **self-employment** income ▶

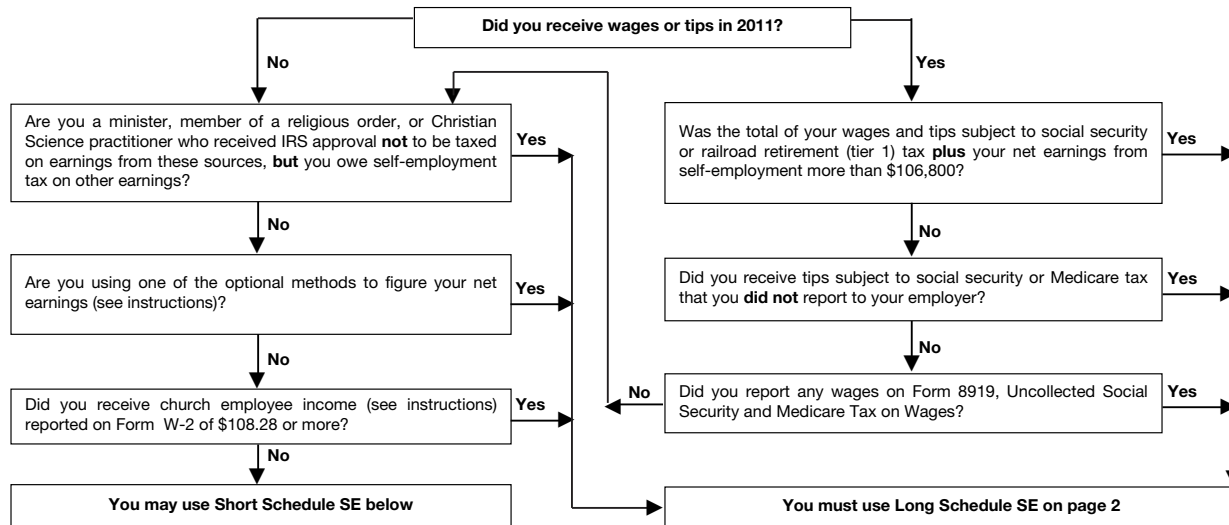
Gerald S Driller

444-76-9494

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	1a	
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	1b	()
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	2	43,853.
3 Combine lines 1a, 1b, and 2	3	43,853.
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.	4	40,498.
5 Self-employment tax. If the amount on line 4 is: • \$106,800 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 \$106,800, multiply line 4 by 2.9% (.029). Then, add \$11,107.20 to the result. Enter the total here and on Form 1040, line 56, or Form 1040NR, line 54	5	5,386.
6 Deduction for employer-equivalent portion of self-employment tax. If the amount on line 5 is: • \$14,204.40 or less, multiply line 5 by 57.51% (.5751) • More than \$14,204.40, multiply line 5 by 50% (.50) and add \$1,067 to the result. Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	3,097.

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

REV 12/01/11 TTW

Schedule SE (Form 1040) 2011

Form **4562**
Department of the Treasury
Internal Revenue Service (99)

Depreciation and Amortization
(Including Information on Listed Property)

OMB No. 1545-0172
2011
Attachment
Sequence No. **179**

▶ See separate instructions. ▶ Attach to your tax return.

Name(s) shown on return: **Gerald S & Geraldine A Driller**
Business or activity to which this form relates: **Sch C Well Drilling**
Identifying number: **444-76-9494**

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	500,000.
2	Total cost of section 179 property placed in service (see instructions)	2	4,911.
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0.
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	500,000.
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	Drill	4,911.	4,911.
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	4,911.
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	4,911.
10	Carryover of disallowed deduction from line 13 of your 2010 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	96,764.
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	4,911.
13	Carryover of disallowed deduction to 2012. Add lines 9 and 10, less line 12	13	0.

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	0.
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 2011	17	2,180.
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 2011 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						
c 7-year property						
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			39 yrs.	MM	S/L	

Section C—Assets Placed in Service During 2011 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	0.
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	7,091.
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 **8829**
 Department of the Treasury
 Internal Revenue Service (99)

Expenses for Business Use of Your Home
 ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.
 ▶ See separate instructions.

OMB No. 1545-0074

2011
 Attachment
 Sequence No. **176**

Name(s) of proprietor(s) **Gerald S Driller** Your social security number **444-76-9494**

Part I Part of Your Home Used for Business Well Drilling

1	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)	1	377
2	Total area of home	2	2,200
3	Divide line 1 by line 2. Enter the result as a percentage	3	17.14 %
For daycare facilities not used exclusively for business, go to line 4. All others go to line 7.			
4	Multiply days used for daycare during year by hours used per day	4	hr.
5	Total hours available for use during the year (365 days x 24 hours) (see instructions)	5	8,760
6	Divide line 4 by line 5. Enter the result as a decimal amount	6	
7	Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	17.14 %

Part II Figure Your Allowable Deduction

8	Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home and shown on Schedule D or Form 4797, minus any loss from the trade or business not derived from the business use of your home and shown on Schedule D or Form 4797. See instructions	8	44,807.
See instructions for columns (a) and (b) before completing lines 9-21.			
9	Casualty losses (see instructions)	(a) Direct expenses	(b) Indirect expenses
10	Deductible mortgage interest (see instructions)		
11	Real estate taxes (see instructions)		1,580.
12	Add lines 9, 10, and 11		1,580.
13	Multiply line 12, column (b) by line 7	13	271.
14	Add line 12, column (a) and line 13	14	271.
15	Subtract line 14 from line 8. If zero or less, enter -0-	15	44,536.
16	Excess mortgage interest (see instructions)		
17	Insurance		480.
18	Rent		
19	Repairs and maintenance		
20	Utilities		1,200.
21	Other expenses (see instructions)		
22	Add lines 16 through 21	22	1,680.
23	Multiply line 22, column (b) by line 7	23	288.
24	Carryover of operating expenses from 2010 Form 8829, line 42	24	
25	Add line 22 column (a), line 23, and line 24	25	288.
26	Allowable operating expenses. Enter the smaller of line 15 or line 25	26	288.
27	Limit on excess casualty losses and depreciation. Subtract line 26 from line 15	27	44,248.
28	Excess casualty losses (see instructions)	28	
29	Depreciation of your home from line 41 below	29	395.
30	Carryover of excess casualty losses and depreciation from 2010 Form 8829, line 43	30	
31	Add lines 28 through 30	31	395.
32	Allowable excess casualty losses and depreciation. Enter the smaller of line 27 or line 31	32	395.
33	Add lines 14, 26, and 32	33	954.
34	Casualty loss portion, if any, from lines 14 and 32. Carry amount to Form 4684 (see instructions)	34	
35	Allowable expenses for business use of your home. Subtract line 34 from line 33. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions	35	954.

Part III Depreciation of Your Home

36	Enter the smaller of your home's adjusted basis or its fair market value (see instructions)	36	95,000.
37	Value of land included on line 36	37	20,000.
38	Basis of building. Subtract line 37 from line 36	38	75,000.
39	Business basis of building. Multiply line 38 by line 7	39	12,855.
40	Depreciation percentage (see instructions)	40	2.5641 %
41	Depreciation allowable (see instructions). Multiply line 39 by line 40. Enter here and on line 29 above	41	395.

Part IV Carryover of Unallowed Expenses to 2012

42	Operating expenses. Subtract line 26 from line 25. If less than zero, enter -0-	42	0.
43	Excess casualty losses and depreciation. Subtract line 32 from line 31. If less than zero, enter -0-	43	0.

Form **W-2**

Wage and Tax Statement

► Keep for your records

Name Geraldine A Driller	Social Security Number 555-15-9494
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Spouse's W-2 **Military:** Complete Part VI on Page 2 below
 Do not transfer this W-2 to next year

<p>a Employee's social security No . <u>555-15-9494</u></p> <p>b Employer's ID number <u>91-7746309</u></p> <p>c Employer's name, address, and ZIP code <u>Well Finders Inc</u></p> <p>Street <u>333 Deepdown Lane</u></p> <p>City <u>Drilltown</u></p> <p>State <u>WA</u> ZIP Code <u>98502</u></p> <p>Foreign Country _____</p>	<p>1 Wages, tips, other compensation <u>48,000.00</u></p> <p>3 Social security wages <u>48,000.00</u></p> <p>5 Medicare wages and tips <u>48,000.00</u></p> <p>7 Social security tips _____</p> <p>9 Advance EIC payment _____</p> <p>11 Nonqualified plans _____</p> <p>12 Enter box 12 below _____</p>	<p>2 Federal income tax withheld <u>4,782.00</u></p> <p>4 Social security tax withheld <u>2,976.00</u></p> <p>6 Medicare tax withheld <u>696.00</u></p> <p>8 Allocated tips _____</p> <p>10 Dependent care benefits _____</p> <p>Distributions from sect. 457 and nonqualified plans <i>(Important, see Help)</i> _____</p>
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d Control number _____

Transfer employee information from the Federal Information Worksheet

e Employee's name
 First Geraldine M.I. A
 Last Driller Suff. _____

f Employee's address and ZIP code
 Street 1415 Well Rd N
 City Drilltown
 State WA ZIP Code 98502
 Foreign Country _____

13 Statutory employee
 Retirement plan
 Third-party sick pay

14 Enter box 14 below **after** entering boxes 18, 19, and 20.
NOTE: Enter box 15 **before** entering box 14.

Box 12 Code	Box 12 Amount

If Box 12 code is:

A: Enter amount attributable to RRTA Tier 2 tax _____

M: Enter amount attributable to RRTA Tier 2 tax _____

P: Double click to link to Form 3903, line 4. . . _____

R: Enter MSA contribution for Taxpayer . . . _____
 Spouse _____

W: Enter HSA contribution for Taxpayer . . . _____
 Spouse _____

G: Employer is **not** a state or local government