



Directions

The first three scenarios do not require you to prepare a tax return. **Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after the scenarios.**

Advanced Scenario 1: Jacob McPherson

Interview Notes

Jacob sold some stock this year, and has come to you to prepare his tax return.

PDQ stock:

- Jacob inherited 200 shares of PDQ stock from his great-uncle Thomas who died on March 7, 2011.
- Great-uncle Thomas' basis was \$15 per share.
- The fair market value on the date of death was \$25 per share.
- Jacob sold 100 shares of PDQ on July 1, 2011.

ABC stock:

- On February 5, 2011, Jacob sold 200 shares of ABC stock, which he purchased in 1995.
- Jacob does not know the basis for his ABC stock, and the basis is not shown on the 1099-B he received from the broker.

Advanced Scenario 1: Test Questions

1. What is the cost or other basis of the inherited PDQ stock that Jacob sold in 2011?
 - a. \$1,500
 - b. \$2,500
 - c. \$3,000
 - d. \$5,000
2. The gain or loss on the sale of Jacob's inherited PDQ stock is:
 - a. Short-term
 - b. Long-term

3. Jacob does not know the basis of his ABC stock. What can he do?
- a. He can use \$0 as his basis.
 - b. He can contact his broker for help calculating his basis.
 - c. He can calculate his basis by locating and reviewing all of the relevant ABC stock records.
 - d. Any of the above.

Advanced Scenario 2: Ross and Mary Campbell

Interview Notes

- Ross and Mary will file a joint return.
- Ross and Mary purchased their home in 2004 for \$150,000.
- In 2006, Ross and Mary added a swimming pool at a cost of \$10,000.
- In 2009, they repaired the dishwasher at a cost of \$200.
- Ross and Mary lived in the house as their main home until they sold it on June 18, 2011.
- Ross and Mary sold the home for \$145,000 and received a Form 1099-S reporting the sale.
- Ross and Mary are U.S. citizens and have valid social security numbers.

Advanced Scenario 2: Test Questions

4. What is the amount of gain or loss Ross and Mary should report on the tax return?
 - a. The sale should not be reported
 - b. The sale should be reported because a Form 1099-S was received, but the gain or loss is \$0
 - c. Loss of \$15,000
 - d. Loss of \$15,200
5. What is Ross and Mary's adjusted basis in the home?
 - a. \$145,000
 - b. \$150,000
 - c. \$160,000
 - d. \$160,200

Advanced Scenario 3: Gabriella Lafayette

Interview Notes

- On January 3, 2011, Gabriella purchased 2,500 shares of the ABC mutual fund for \$15,000.
- On December 27, 2011, the fund paid a capital gain distribution of \$300 that was reinvested to purchase an additional 100 shares.
- The fund did not pay dividends.
- Gabriella received Form 1099-DIV reporting the capital gain distribution, and a year-end statement showing \$7,800 as the December 31, 2011, value of her 2,600 shares.
- This is Gabriella's only investment account and she did not sell any shares in 2011.

Advanced Scenario 3: Test Questions

6. Where on the tax return should Gabriella's December 27 capital gain distribution appear?
 - a. The distribution is not reported because the shares were reinvested.
 - b. As a dividend on Form 1040, line 9a
 - c. As a capital gain distribution on Form 1040, line 13
 - d. As other income on Form 1040, line 21
7. How should the loss in value of Gabriella's investment be reported?
 - a. She can deduct a \$7,500 capital loss on Form 1040, line 13.
 - b. She can deduct a \$7,200 capital loss on Form 1040, line 13.
 - c. Her loss is limited to a \$3,000 deduction on Form 1040, line 13.
 - d. She cannot claim any loss because no shares were sold.
8. What is the total basis of all Gabriella's ABC mutual fund shares held on December 31, 2011?
 - a. \$7,800
 - b. \$8,100
 - c. \$15,000
 - d. \$15,300

Advanced Scenario 4: Nathan and Phoebe Wheeler

Taxpayer Documents

- Social security cards for Nathan Wheeler, Phoebe Wheeler, and Matthew Wheeler
- Completed intake and interview sheet
- Forms 1099-R for Nathan and Phoebe
- Consolidated brokerage statement (substitute Form 1099-B and Form 1099-DIV)
- Schedule K-1 from Essex Corporation

Interview Notes

- Nathan and Phoebe want to file a joint tax return.
- Nathan retired and started receiving his pension of \$2,000 per month in March 2011.
- Nathan's pension plan is a qualified plan, and he received benefits under a joint and survivor annuity, to be paid over the joint lives of Nathan and Phoebe.
- Nathan contributed \$18,000 to the plan and did not receive any distributions before his annuity starting date.
- Phoebe receives disability payments from her former employer. Phoebe has not yet reached the minimum retirement age for the employer.
- Nathan won \$2,500 at a poker tournament. He calculated his losses through the year as \$2,100. No Form W-2G was issued.
- Nathan and Phoebe received a K-1 from an S corporation, reporting interest income.
- They sold some stock in 2011. They brought the consolidated broker's statement.
- Nathan and Phoebe brought a copy of their 2010 tax return to show you they have a long-term capital loss carryover of \$375.
- Nathan and Phoebe will not itemize for 2011.
- The Wheelers have never had EIC disallowed.



Intake/Interview & Quality Review Sheet

Section A. You should complete Pages 1-3

Thank you for allowing us to prepare your tax return. You are responsible for the information on your return so please provide complete and accurate information to the certified tax preparer. If you have any questions please ask your preparer.

You will need your:

- Tax information such as Forms W-2, 1099, 1098.
- Social security cards or ITIN letters for you and all persons on your tax return.
- Proof of Identity (such as a valid drivers license or other government issued picture ID).

Part I. Your Personal Information

1. Your First Name NATHAN	M. I.	Last Name WHEELER	Are you a U.S. Citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. Spouse's First Name PHOEBE	M. I.	Last Name WHEELER	Is spouse a U.S. Citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
3. Mailing Address 388 NASH	Apt#	City YOUR CITY	State YS	Zip Code YOUR ZIP
4. Contact Information Phone: YOUR PHONE # Cell Phone: E-mail: NONE				
5. Your Date of Birth 01/11/1949	6. Your Job Title RETIRED	Are you: 8. Totally and Permanently Disabled	7. Legally Blind	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
9. Spouse's Date of Birth 06/26/1960	10. Spouse's Job Title DISABLED	Is Spouse: 12. Totally and Permanently Disabled	11. Legally Blind	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
13. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure				

Part II. Marital Status and Household Information

1. As of December 31, 2011, were you?
 Single
 Married: Did you live with your spouse during any part of the last six months of 2011? Yes No
 Divorced or Legally Separated: Date of final decree or separate maintenance agreement: _____
 Widowed: Year of spouse's death: _____

2. List names below of everyone who lived in your home in 2011 (other than you or spouse). Also list anyone who lived outside of your home that you supported during 2011. If additional space is needed please check here and list on page 3.

Name (first, last) Do not enter your name or spouse's name below.	Date of Birth (mm/dd/yy)	Relationship to you (e.g. daughter, son, mother, sister, none)	Number of months lived in your home in 2011	US Citizen or resident of the US, Canada or Mexico in 2011 (yes/no)	Marital Status as of 12/31/11 (S/M)	Full- time student in 2011 (yes/no)	Received less than \$3700 income in 2011 (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
MATTHEW WHEELER	02/03/94	SON	12	YES	S	YES	YES

- Volunteers assisting with preparing your return are trained to provide high quality service and uphold the highest ethical standards.
- To report unethical behavior to IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205.

To check the status of your REFUND visit "Where's My Refund?" on www.irs.gov or call 1-800-829-1954 for assistance.

Section A. Please complete – check Yes, No or Unsure to all questions below. Please ask if you need help.

Part III. Income – In 2011, did you (or your spouse) receive:

Yes No Unsure

1. Wages or Salary? (Form W-2)
2. Tip Income?
3. Scholarships? (Forms W-2, 1098-T)
4. Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
5. Refund of state/local income taxes? (Form 1099-G)
6. Alimony Income?
7. Self-Employment payments (such as cash received for services, small business)? (Form 1099-MISC)
8. Income (or loss) from the sale of Stocks, Bonds or Real Estate (including your home)? (Forms 1099-S, 1099-B)
9. Disability Income (such as payments from insurance or workers compensation)? (Forms 1099-R, W-2)
10. Distributions from Pensions, Annuities, and/or IRA? (Form 1099-R)
11. Unemployment Compensation? (Form 1099-G)
12. Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
13. Income (or loss) from Rental Property?
14. Other Income: (gambling, lottery, prizes, awards, jury duty, etc.) Specify: SCH K-1 & GAMBLING
(Forms W-2 G, 1099-MISC)

Part IV. Expenses – In 2011 Did you (or your spouse) pay:

Yes No Unsure

1. Alimony: If yes, do you have the recipient's SSN? Yes No
2. Contributions to a retirement account? IRA Roth IRA 401K Other
3. Educational expenses paid for yourself, spouse or dependents, such as tuitions, books, fees, etc.? (Form 1098-T)
4. Unreimbursed employee business expenses (such as teacher supplies, uniforms or mileage)?
5. Medical expenses (including health insurance premiums)?
6. Home mortgage interest? (Form 1098)
7. Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
8. Charitable contributions?
9. Child/dependent care expenses, such as day-care?

Part V. Life Events – In 2011 Did you (or your spouse):

Yes No Unsure

1. Have a Health Savings Account? (Forms 5498-SA, 1099-SA)
2. Have debt from a mortgage or credit card canceled/forgiven by a commercial lender? (Form 1099-C)
3. Buy, sell or have a foreclosure of your home? (Form 1099-A)
4. Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
5. Purchase and install energy efficient home items (such as windows, furnace, insulation, etc.)?
6. Live in an area that was affected by a natural disaster? If yes, where? _____
7. Receive the First Time Homebuyers Credit in 2008?
8. Pay any student loan interest? (Form 1098-E)
9. Make estimated tax payments or apply last year's refund to your 2011 tax? If so how much? _____
10. Attend school as a full time student? (Form 1098-T)
11. Adopt a child?
12. File a 2010 federal tax return containing a "capital loss carryover" on Form 1040 Schedule D?

Presidential Election Campaign Fund: (If you check a box, your tax or refund will not change.)

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

Catalog Number 52121E

Form **13614-C** (Rev. XX-XXXX)

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Additional Information and Questions related to the preparation of your return

Many free tax preparation sites operate by receiving grant money. The data from the following questions may be used by this site to apply for these grants. Your answers will be used only for statistical purposes.

Other than English what language is spoken in the home? None

Are you or a member of your household considered disabled? Yes No

If you are due a refund or have a balance due:

- Ask your preparer about Direct Deposit. It is the fastest, easiest way to receive your tax refund. An e-filed return means a fast refund. Taxpayers who combine e-file and Direct Deposit can get their refunds in as few as 10 days.
- Ask your preparer about purchasing Series I U.S. Savings Bonds with part or all of your tax refund. Savings bonds are a safe and secure way to invest in the future. Purchase I Bonds for yourself or others in multiples of \$50 and earn interest for up to 30 years.

If you are due a refund, would you like a direct deposit? Yes No

If you are due a refund, would you like information on how to purchase U.S. Savings Bonds? Yes No

If you are due a refund, would you like information on how to split your refund between accounts? Yes No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

Additional comments:

DRAFT of 7-22-11

STOP HERE!

Thank you for completing this form.

Please give this form to the certified volunteer preparer for use in preparing your return.

Your Civil Rights are Protected: It is the Internal Revenue Service's mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. Under no circumstances will the Internal Revenue Service tolerate discrimination by its employees, grantees, contractors, and/or subcontractors. NO ONE shall be excluded from participating in, be denied the benefits of, or be subject to discrimination because of race, color, sex, national origin, disability, reprisal, or age in programs or activities funded by the Department of Treasury – Internal Revenue Service. Any person who believes that he/she has been discriminated against on the basis of race, color, sex, national origin, disability, reprisal or age in programs or activities receiving financial assistance (e.g. Low-Income Tax Clinics, Tax Counseling for the Elderly) from the Department of Treasury IRS, may submit a written complaint to: National Headquarters, Office of Equity, Diversity & Inclusion, Internal Revenue Service; Attn: Director, Civil Rights Division (External Civil Rights Team); 1111 Constitution Ave., NW Room 2422; Washington, DC 20224.

Paperwork Reduction Act Notice

The Paperwork Reduction Act requires that the IRS display an OMB control number on all public information requests. The OMB Control Number for this study is 1545-1964. Also, if you have any comments regarding the time estimates associated with this study or suggestion on making this process simpler, please write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, Washington, DC 20224.

Catalog Number 52121E

Form 13614-C (Rev. xx-xxxx)

Section B. For Certified Volunteer Preparer Completion

Remember: You are the link between the taxpayer's information and a correct tax return. Verify the taxpayer's information on pages 1, 2 & 3 is complete. All questions must be discussed with the taxpayer and all "Unsure" responses should be changed to "Yes" or "No".

Must be completed by Certified Volunteer only if persons are listed in Part II Question 2

Check if persons are listed in Part II Question 2

- Yes No 1. Can anyone else claim any of the persons listed in Part II, Question 2, as a dependent on their return? **If yes, which ones:**

- Yes No 2. Were any of the persons listed in Part II, Question 2, totally and permanently disabled? **If yes, which ones:**

- Yes No 3. Did any of the persons listed in Part II, Question 2 provide more than 50% of their own support? **If yes, which ones:**

- Yes No 4. Did the taxpayer provide more than half the support for each of the persons in Part II, Question 2? **If yes, which ones:**
 N/A

- Yes No 5. Did the taxpayer pay over half the cost of maintaining a home for any of the persons in Part II, Question 2? **If yes, which ones:**

Reminders

Use Publication 4012, *Volunteer Resource Guide* and Publication 17, *Your Federal Income Tax* in making tax law determinations.

Additional Tax Preparer Notes:

Section C. For Certified Quality Reviewer Completion

Confirm each item after reviewing the tax return and verifying that it reflects correct tax law application to the information provided by the taxpayer.

- 1. Sections A & B of this form are complete.
 - 2. Taxpayer's identity, address and phone numbers were verified.
 - 3. Names, SSN or ITINs, and dates of birth of taxpayer, spouse and dependents match the supporting documents.
 - 4. Filing Status is correctly determined.
 - 5. Personal and Dependency Exemptions are entered correctly on the return.
 - 6. All information shown on source documents and noted in Section A, Part III is included on the tax return.
 - 7. Any Adjustments to Income are correctly reported.
 - 8. Standard, Additional or Itemized Deductions are correct.
 - 9. All credits are correctly reported.
 - 10. Withholding shown on Forms W-2, 1099 and Estimated Tax Payments are correctly reported.
- All tax law issues above have been addressed and necessary changes have been made.
- If direct deposit or debit was elected, checking/saving account and routing information match the supporting documents.
- Correct SIDN and EFIN are shown on the return.

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code MOTHER GOOSE NURSERY 907 STARR YOUR CITY, STATE ZIP		1 Gross distribution \$ 5,000.00	OMB No. 1545-0119 2011		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$ 5,000.00	Form 1099-R		
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
PAYER'S federal identification number 40-0XXXXXX	RECIPIENT'S identification number 310-XX-XXXX	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ 0.00		
RECIPIENT'S name PHOEBE WHEELER		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.) 388 NASH		7 Distribution code(s) 3	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City, state, and ZIP code YOUR CITY, STATE ZIP		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$	
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	

Form 1099-R

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code SOUTHEAST ISD 1809 QUINCY YOUR CITY, STATE ZIP		1 Gross distribution \$ 20,000.00	OMB No. 1545-0119 2011		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$	Form 1099-R		
		2b Taxable amount not determined <input checked="" type="checkbox"/>	Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
PAYER'S federal identification number 40-1XXXXXX	RECIPIENT'S identification number 316-XX-XXXX	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$		
RECIPIENT'S name NATHAN WHEELER		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.) 338 NASH		7 Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City, state, and ZIP code YOUR CITY, STATE ZIP		9a Your percentage of total distribution %	9b Total employee contributions \$ 18,000.00		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$	
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	

Form 1099-R

Department of the Treasury - Internal Revenue Service

Year-end Statement for:
Nathan and Phoebe Wheeler
388 Nash
Your City, State, ZIP
316-XX-XXXX

12/31/2011
ABC Investments, Inc.
456 Main Street
Your City, State, ZIP
FEIN: 40-2XXXXXX

SALES (Substitute 1099-B)

Description (Box 9)	200 shares XYZ stock	250 shares ABC stock
Date of Sale (Box 1a)	2/1/2011	2/1/2011
Date of Acquisition (Box 1b)	3/23/2000	9/16/2010
Sales Price less commission (Box 2)	\$3,175.00	\$3,250.00
Cost or other basis (Box 3)	\$2,000.00	\$3,750.00
Federal Withholding (Box 4)	\$0.00	\$0.00
Non-covered securities (Box 6)	X	X
Type of Gain or Loss (Box 8)	L	S

DIVIDENDS (Substitute 1099-DIV)

Payer	ABC Investments, Inc.
Ordinary Dividend (Box 1a)	\$300.00
Qualifying Dividend (Box 1b)	\$300.00
Capital Gain Distribution (Box 2a)	\$50.00
Federal Withholding (Box 4)	\$0.00
Foreign Tax Paid (Box 6)	\$0.00

INTEREST (Substitute 1099-INT)

Payer	ABC Investments, Inc.
Interest Income (Box 1)	\$0.00
Early Withdrawal Penalty (Box 2)	\$0.00
Interest on US Savings Bond (Box 3)	\$0.00
Federal Withholding (Box 4)	\$0.00

Schedule K-1
(Form 1120S)
 Department of the Treasury
 Internal Revenue Service

2011

For calendar year 2011, or tax
 year beginning _____, 2011
 ending _____, 20____

671111

Final K-1 Amended K-1 OMB No. 1545-0130

Shareholder's Share of Income, Deductions, Credits, etc.
 ▶ See back of form and separate instructions.

Part I Information About the Corporation	
A Corporation's employer identification number 40-XXXXXX	
B Corporation's name, address, city, state, and ZIP code ESSEX CORPORATION 300 MARK STREET YOUR CITY, STATE ZIP	
C IRS Center where corporation filed return	
Part II Information About the Shareholder	
D Shareholder's identifying number 316-XX-XXXX	
E Shareholder's name, address, city, state, and ZIP code NATHAN WHEELER 388 NASH YOUR CITY, STATE ZIP	
F Shareholder's percentage of stock ownership for tax year _____ %	
For IRS Use Only	

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income	160	
5a	Ordinary dividends		
5b	Qualified dividends	14	Foreign transactions
6	Royalties		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)		
10	Other income (loss)	15	Alternative minimum tax (AMT) items
11	Section 179 deduction	16	Items affecting shareholder basis
12	Other deductions		
		17	Other information
* See attached statement for additional information.			

Advanced Scenario 4: Test Questions

Directions

Complete Form 1040 and the appropriate forms, schedules, and worksheets to answer each of the following questions.

Note: When using the Link and Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID. In classroom situations, replace the Xs with the EFIN provided by your instructor.

9. The disability income from Phoebe's Form 1099-R should appear on which line of Form 1040?
 - a. Disability income is not reported
 - b. Report as Wages on line 7
 - c. Report as Pension on line 16b
 - d. Report as Other income on line 21

10. Where on the tax return should the interest income from Schedule K-1 (Form 1120S) appear?
 - a. Form 1040, line 8a
 - b. Form 1040, line 12
 - c. Form 1040, line 17
 - d. Form 1040, line 21

11. The holding periods for Nathan and Phoebe's stock are as follows:
 - a. Both ABC and XYZ are short-term
 - b. Both ABC and XYZ are long-term
 - c. ABC is short-term and XYZ is long-term
 - d. ABC is long-term and XYZ is short-term

12. What is the net capital gain (or loss) that appears on Form 1040, line 13?
 - a. \$350
 - b. \$675
 - c. \$1,175
 - d. \$1,225

13. How much of the \$20,000 gross distribution reported on Nathan's Form 1099-R is taxable in 2011?
 - a. \$19,308
 - b. \$19,400
 - c. \$19,500
 - d. \$20,000

14. What should Nathan report as gambling income on Form 1040, line 21?
- a. Nothing, because no Form W-2G was issued
 - b. \$400
 - c. \$2,100
 - d. \$2,500
15. What amount of earned income, if any, is used to calculate the Wheelers' EIC?
- a. \$0
 - b. \$5,000
 - c. \$24,000
 - d. \$29,510