

Practice Tax Return # 10 Tax Year 2011

Before starting this practice return, review the General Instructions.

Issues: This practice situation involves a 2011 individual tax return for a married couple; the husband is a member of the clergy.

Comments: Special tax considerations for housing allowance are attributable to members of the clergy.

Facts:

INDIVIDUAL TAX RETURNS

Personal Data: Paul and Sarah Matthews are married, have two children (son and daughter), and file a joint tax return. They live at 234 Bright Dawn Lane, Amity, AR 71921. Paul is an ordained minister and his Social Security Number is 400-00-3010, and his birth date is September 13, 1969. Sarah is a nurse, her Social Security Number is 400-00-8008, and her birth date is November 12, 1973. Paul's daytime phone number is 870-870-1111, Sarah's daytime phone number is 870-870-5555 and their evening number is 870-870-9999, their email address is paulsarahmatthews@oal.com. The Matthews made quarterly estimated payments of \$1,500.

Dependents: Joshua (son) and Mary (daughter) lived with their parents the entire year. Joshua's Social Security Number is 400-00-8009, and his birth date is June 21, 2000. Mary's Social Security Number is 400-00-8010 and her birth date is May 31 2002. Neither child is married. No other person qualifies to claim these children as dependents.

Child and Dependent Care: The Matthews paid a total of \$5,000 (\$2,500 for each child) to Adventure House Day Care, located at 444 Evening Sunset Ave, Amity, AR 71921. Employer Identification Number (EIN) is 88-4444444 and the phone is 870-870-1234.

Wages and Salaries: For 2011 Paul has a W-2 for \$45,000 from the New Day Church, and he elects to pay his own Social Security and Medicare taxes. (Enter a **P** in the in the Special Tax Treatment box of the **W2** screen.) Sarah has a W-2 for \$46,000 from Smith Hospital. See Exhibit A for copies of their W-2s.

Minister and Clergy: The New Day Church provides the Matthews' with a rental or parsonage allowance. The parsonage allowance is \$12,000. The church also provides a separate utility allowance of \$2,000. The actual expenses for the parsonage are \$11,000. The actual expenses for utilities are \$1,500. The Fair Rental Value is \$12,000. (This information is entered on the **CLGY** screen)

Business Income: As a pastor, Paul performs weddings, funerals, and other functions and receives fees for these functions that are treated as income. The fees for 2011 totaled \$10,000. His EIN is 40-0004456, his business code is 813000, and he uses the cash method of accounting. In addition to the travel, meals and entertainment and mileage listed under Employee Business Expenses, he has the following expenses items:

Schedule C expenses	
Office expense	500
Other expense marriage books	200
Other expense baptismal certificates	100

Itemized Deductions (screen A):

The Matthews have the following deductions:

Itemized Deductions	
Health Insurance Premiums (Spouses group coverage)	7,000
Number of medical miles (all before 7/01/2011)	500
Other medical and dental expenses	1,000
Home mortgage interest on Form 1098	6,500
Gifts to Charity - Total gifts by cash or check	4,500
Charitable miles	1,500
Tax preparation fees	200

Business (screen C) and Employee Business Expenses (screen 2106):

Paul Matthews uses his personal vehicle for church visitations and other church sponsored events. Check **Paster – Carry 2106 amount to CLGY worksheet.**

	Business and Employee Business Expenses	Total	2106	Schedule C
T&E	Travel away from home	\$ 1,500	\$ 1,000	\$ 500
	Meals and Entertainment	\$ 500	\$ 300	\$ 200
Vehicle	1964 Lincoln Continental, purchased 06/15/1970	-	-	-
	Total mileage (60% before 7/1/2011)	30,000	15,000	15,000
	Business mileage (60% before 7/1/2011)	20,000	10,000	10,000

They have another vehicle available for personal use during off-duty hours. They have written evidence to support the deduction.

Practice Tax Return # 10 Tax Year 2011
 Exhibit A page 1 of 2
 Paul and Sarah Matthews
 W-2

Employee's social security number 400-00-3010		Safe, accurate, FAST! Use		IRS e-file		Visit the IRS website at www.irs.gov/efile	
Employer identification number (EIN) 04-3333333		Wages, tips, other compensation 45,000		Federal income tax withheld 5,000			
Employer's name, address, and ZIP code DAY CARE THREE 100 WATERPOOL LANE SACRAMENTO CA 95812		Social security wages		Social security tax withheld			
		Medicare wages and tips 45,000		Medicare tax withheld 653			
		Social security tips		Allocated tips			
Control number		9		10 Dependent care benefits			
Employee's first name and initial PAUL MATTHEWS Employee's address and ZIP code 234 BRIGHT DAWN LANE AMITY AR 71921		11 Nonqualified plans		12 IRA distributions for 2011			
		13 <input type="checkbox"/> Salaried employee <input type="checkbox"/> Health plan <input type="checkbox"/> Non-plan sick pay		13			
		14 Other PARSON 12,000 UTILITY 2,000		14			
15 State Employer's state ID no. AR 87777771457WTH		16 State wages, tips, etc. 45,000		17 State income tax 4,000			
				18 Local wages, tips, etc.		19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement 2011
 Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

The information on the Form W-2 was used to prepare the taxpayer's 2011 Federal tax return by DRAKE SOFTWARE



Practice Tax Return # 10 Tax Year 2011
 Exhibit A page 2 of 2
 Paul and Sarah Matthews
 W-2

b Employer identification number (EIN) 04-4444444		1 Wages, tips, other compensation 46,000		2 Federal income tax withheld 5,500	
c Employer's name, address, and ZIP code UNITED STATES ARMY 12 PENTAGON DRIVE WASHINGTON DC 20044		3 Social security wages 46,000		4 Social security tax withheld 1,932	
		5 Medicare wages and tips 46,000		6 Medicare tax withheld 667	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial SARAH		Last name MATTHEWS		Suff.	
f Employee's address and ZIP code 234 BRIGHT DAWN LANE AMITY AR 71921		11 Nonqualified plans		12 See instructions for details	
		13 Statutory employee <input type="checkbox"/> Health plan <input type="checkbox"/> Nonqualified sick pay <input type="checkbox"/>		Other <input type="checkbox"/>	
15 State Employer's state ID no. AR 1512123132		16 State wages, tips, etc. 46,000		17 State income tax 3,500	
		18 Local wages, tips, etc.		19 Local income tax	
		20 Locality name			

Form **W-2** Wage and Tax Statement **2011** Department of the Treasury-Internal Revenue Service
 Copy 2 - To Be Filed With Employee's FEDERAL Tax Return.
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