

## Practice Tax Return # 7 Tax Year 2011

*Before starting this practice return, review the General Instructions.*

**Issues:** This practice situation involves an individual tax return for a single taxpayer who has one W-2, three rental properties, interest income, and dividend income.

**Comments:** The depreciation method ARR reports residential real estate on the correct line of 4562 in the year of purchase.

**Facts:**

### INDIVIDUAL TAX RETURNS

**Personal Data** (screen **1**): Neal Geadelli is a single lawyer with no dependents, his Social Security Number is 400-00-3007, his birth date is June 22, 1949 and he lives at 333 Bird Brown Rd., Franklin, NC 28734. Neal's daytime phone number is 828-546-2222 and his evening phone number is 828-333-4444. His e-mail address is [nealgeadelli@oal.com](mailto:nealgeadelli@oal.com). Neal paid \$3,500 each quarter in estimated taxes.

**Wages and Salaries** (screen **W2**): Neal has one W-2 for \$76,000. See Exhibit A for copy of the W-2.

**Interest Income** (screen **INT**): Neal had interest in 2011 from Citibank for \$5,000. At no time during 2011 did Neal have an interest or signature or other authority over a financial account in a foreign country, such as a bank account, security account, or other financial account. At no time during 2011 did he receive a distribution from, or was the grantor of, or transferor to, a foreign trust.

**Dividend Income** (screen **DIV**): In 2011 Neal had ordinary dividend income from Hometown Investment Services of \$450, of which \$300 was qualified dividends. He had capital gain distributions of \$3,500.

**Rental Income** (screen **E**): To depreciate residential real property in Drake Software, select **ARR** as the method of depreciation. In the year of acquisition, this selection will report the residential real estate on the correct line of the Form 4562.

Neal owns and operates (this would be considered "active participation") three residential rental properties. All of his investment is at risk, none of the properties were disposed of in 2011, and none of the properties were used for personal purposes. Forms 1099 were not required to be filed for any of the properties, and all properties were single family dwellings. The property location, income, expenses, and capital asset list for the properties are presented on Exhibit B.

Practice Tax Return # 7 Tax Year 2011  
 Exhibit A  
 Neal Geadelli  
 W-2

<b>a</b> Employee's social security number <b>400-00-3007</b>		OMB No. 1545-0008		<b>Safe, accurate.</b> FAST! Use		<b>IRS e-file</b>		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a>		
<b>b</b> Employer identification number (EIN) <b>88-2212345</b>			<b>1</b> Wages, tips, other compensation <b>76,000</b>		<b>2</b> Federal income tax withheld <b>8,000</b>					
<b>c</b> Employer's name, address, and ZIP code <b>CITY OF HIGHLANDS</b>  <b>222 RIDGE LANE</b> <b>HIGHLANDS NC 28741</b>			<b>3</b> Social security wages <b>76,000</b>		<b>4</b> Social security tax withheld <b>3,192</b>					
			<b>5</b> Medicare wages and tips <b>76,000</b>		<b>6</b> Medicare tax withheld <b>1,102</b>					
			<b>7</b> Social security tips		<b>8</b> Allocated tips					
<b>d</b> Control number			<b>9</b>		<b>10</b> Dependent care benefits					
<b>e</b> Employee's first name and Initial <b>NEAL</b>		Last name <b>GEADELLI</b>		Suff.		<b>11</b> Nonqualified plans		<b>12a</b> See instructions for box 12		
<b>333 BIRD BROWN RD</b> <b>FRANKLIN NC 28734</b>			<b>13</b> Statutory employee <input type="checkbox"/> Retmt. plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		<b>12b</b> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>					
			<b>14</b> Other		<b>12c</b> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>					
			<b>12d</b> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<b>12e</b> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>					
<b>f</b> Employee's address and ZIP code			<b>15</b> State Employer's state ID no. <b>NC 77223333</b>		<b>16</b> State wages, tips, etc. <b>76,000</b>		<b>17</b> State income tax <b>5,000</b>		<b>18</b> Local wages, tips, etc.	
									<b>19</b> Local income tax	
									<b>20</b> Locality name	

**Form W-2 Wage and Tax Statement** EEA **2011** Department of the Treasury-Internal Revenue Service  
 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 # 7 Tax Year 2011  
Exhibit B page 1 of 2  
Neal Geadelli  
Schedule E - Residential Rental Properties  
Income & Expenses

Property 1 is residential rental real estate (house and land) located at 444 Bluebird Way, Highlands, NC 28741.

Rent income was \$20,000. Expenses were:

Description	Direct	Indirect
Cleaning & maintenance	1,500	
Insurance	1,200	
Legal and professional	650	
Interest – Mortgage	3,800	
Repairs	1,000	
Supplies	500	
Taxes	1,500	
Utilities	2,000	

Property 2 is residential rental real estate (house and land) located at 777 Red Bird Way, Highlands, NC, 28741.

Rent income was \$20,000. Expenses were:

Description	Direct	Indirect
Cleaning & maintenance	1,500	
Insurance	1,200	
Legal and professional	1,000	
Interest – Mortgage	5,000	
Repairs	1,000	
Supplies	500	
Taxes	2,000	
Utilities	1,800	

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 Exhibit B page 2 of 2  
 Neal Geadelli  
 Schedule E - Residential Rental Properties  
 Income & Expenses & Capital Assets

Property 3 is residential rental real estate (house and land) located at 444 Snow Bridge Court, Highlands, NC, 28741.

Rent income was \$15,000. Expenses were:

Description	Direct	Indirect
Advertising	500	
Auto & travel	500	
Cleaning & maintenance	1,500	
Insurance	1,100	
Legal and professional	600	
Interest – Mortgage	3,000	
Repairs	700	
Supplies	100	
Taxes	1,400	
Utilities	1,800	

Enter all depreciation on the properties. Enter multi-form codes.

Capital Assets Listing

Asset #	Description
1	444 Bluebird Way, Highlands, NC, 28741
2	777 Red Bird Way, Highlands, NC, 28741
3	444 Snow Bridge Court, Highlands, NC, 28741

Depreciation Detail Listing

#	Date	Building Cost	Land Cost	Bus %	Life in years	Method	Accumulated Depreciation End of Last Year	Prior Expense	Bonus Depreciation
1	02/19/02	155,000	51,250	100	27.5	ARR	54,483	NA	NA
2	04/12/03	125,000	42,567	100	27.5	ARR	36,362	NA	NA
3	01/12/04	175,000	61,250	100	27.5	ARR	44,544	NA	NA