

# 1040 SANDS CASE STUDY FACTS (CASSAM)

Charles and Freda Sands live in Denver, Colorado. Charles left his executive position with XYZ in 2024 and started his own service business. Freda Sands is a partner in three domestic limited partnerships, non publicly-traded. Mrs. Sands does not materially participate in any of them.

## TARGETED AREAS

- Passive activity coding
- K-1s
- Alternative minimum tax
- Incentive stock options
- Research expense
- Tax-exempt interest
- Self-employment tax
- Insurance premiums for self-employed
- Estimated tax payments

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# RETURN INFORMATION

Some data is already entered for you. Use the [Data Entry \(page 7\)](#) section for instructions and hints on entering any data you are unsure how to enter. You should verify all the information when it has changed or is missing based on the information in these facts.

## BASIC TAXPAYER INFORMATION

	TAXPAYER	SPOUSE
NAME	<i>Charles Sands</i>	<i>Freda Sands</i>
ADDRESS	<i>500 North Way Denver, CO 80808</i>	
SSN	<i>777-77-7777</i>	<i>888-88-8888</i>
DOB	<i>04/29/1969</i>	<i>10/16/1970</i>
EMPLOYMENT	<i>Consultant</i>	<i>Investor</i>
PRESIDENTIAL ELECTION CAMPAIGN FUND?	<i>No</i>	
FILING STATUS	<i>Married, Filing jointly</i>	
INTEREST INCOME	<i>Tax Exempt Interest</i>	
STATE OF FLORIDA BONDS	<i>\$5,000</i>	

## PROFIT/LOSS FROM BUSINESS

NAME	<i>Services by Sands</i>
ADDRESS	<i>75 South Way Denver, CO 80808</i>
PRINCIPAL PROFESSION	<i>Services</i>
BUSINESS CODE	<i>541219</i>

METHOD OF ACCOUNTING	<i>Cash method</i>
INVENTORY VALUATION	<i>Cost</i>
SELF-EMPLOYED HEALTH INSURANCE PREMIUM	<i>\$ 3,000</i>
CONSULTING FEES INCOME	<i>\$50,000</i>
RESEARCH EXPENSE (OTHER EXPENSES)	<i>\$ 6,000</i>
DEPRECIABLE ASSET	<i>Equipment</i>
PURCHASE DATE	<i>01/01/2024</i>
METHOD	<i>MACRS 7-yr.</i>
COST	<i>\$10,000</i>

## PARTNERSHIPS (SELECTED PORTIONS OF K-1S SHOWN)

	PLIMPTON EQUIPMENT, LTD.	BAILOR REAL ESTATE INVESTORS	TECHNOLOGY FUNDING
NUMBER	<i>1</i>	<i>2</i>	<i>3</i>
PARTNERSHIP ID NUMBER	<i>94-2904388</i>	<i>36-3215399</i>	<i>84-1010419</i>
K-1, LINE 1 ORDINARY INCOME/LOSS FROM TRADE/BUSINESS			<i>\$-8,230</i>
K-1, LINE 2 NET INCOME (LOSS) FROM RENTAL REAL ESTATE		<i>\$-6,790</i>	

	PLIMPTON EQUIPMENT, LTD.	BAILOR REAL ESTATE INVESTORS	TECHNOLOGY FUNDING
K-1, LINE 3 NET INCOME (LOSS) FROM OTHER RENTAL INCOME	\$ 5,320		
K-1, LINE 5 INTEREST INCOME			\$ 45
K-1, LINE 6A DIVIDEND INCOME	\$ 100		
K-1, LINE 7 ROYALTY INCOME	\$ 500		
K-1, LINE 17 POST-86 DEPRECIATION ADJUSTMENT	\$ 280	\$ 250	\$ 748
PASSIVE ACTIVITY LOSS CARRYOVER			
FORM 4797 (1231)		X	
OPERATING LOSSES			X
REGULAR TAX		\$ 7,860	\$ 5,300
ALTERNATIVE MINIMUM TAX		\$ 9,250	\$ 7,980

## MEDICAL EXPENSES

HOSPITALS	\$10,000
INSURANCE REIMBURSEMENT	\$ 1,000

## TIMELY QUARTERLY PAYMENTS OF ESTIMATED TAX MADE

FIRST INSTALLMENT	\$3,000
SECOND INSTALLMENT	\$3,000
THIRD INSTALLMENT	\$3,000
FOURTH INSTALLMENT	\$3,000
PRIOR YEAR LIABILITY	\$9,000

## CHARITABLE CONTRIBUTIONS, NONCASH

The Sands gave **300 shares of ABC Co.**, a publicly-traded security, to the **Denver Boys Club**. The stock was purchased **6/15/1992** for **\$650**. Fair market value (stock quote) at the date of gift (**08/08/2024**) was **\$4,200**.

## ALTERNATIVE MINIMUM TAXABLE INCOME ADJUSTMENTS

Charles Sands exercised stock options for 1,000 shares of XYZ Corporation. He had been granted the options as part of an incentive to corporate executives.

Tax adjustment item **\$28,000**

The research expense that was deducted on Schedule C in the full amount of \$6,000 must be amortized over 10 years for alternative minimum tax.

The amount deductible for alternative minimum taxable income is **\$600**; the adjustment is **\$5,400**.

## TRANSMITTAL LETTER AND FILING INSTRUCTIONS

You wish to generate a combined transmittal letter and filing instructions for this return. The return will be filed with the appropriate IRS center for Colorado residents. In the letter, you want to tell the Sands that you are enclosing the data they furnished for preparing the return.

# DATA ENTRY

This page is used to provide help when you are not sure where to enter data. You do not need this page if you know where all the information belongs.

Forms are accessed from the **Forms List** window at the left of the screen. Make sure **Organizer** is selected.

## TAXPAYER INFORMATION

1. Select **Quick Track > Basic Return Information**.

OR

Select **General Information > Basic Return Information > Taxpayer Information**.

2. Enter any missing data and review all entries.

## STATE OF FLORIDA BONDS

1. To enter bond information, select **Income > Interest Income > Savings/US Bonds/Tax-Exempt/Foreign Int** tab.
2. Scroll to **Tax-Exempt Interest**.
3. Enter **State Exempt Interest**.



The system will add the income back for alternative minimum tax calculations.

## BUSINESS INFORMATION

1. To enter business information, select **Quick Track > Business Income**.

OR

Select **Income > Business Income > Service by Sands**.

2. Enter the business income and expense items.

## K-1 INFORMATION

Enter K-1s from all types of entities (1065, 1120S, and 1041) through the Forms List Window:

1. Select **Quick Track > Schedule K-1**.

OR

Select **Income > Schedule K-1 > activity name > Schedule K-1 Information**.

2. On the **Activity Information** tab:

- a. Verify that the **Spouse** radio button is selected in the **Ownership** box for each K-1, since Mrs. Sands is the partner. All K-1s are passive.



For multi-activity K-1s, such as a partnership having both ordinary income and rental real estate, treat each activity separately so that income can be coded separately for correct treatment. This is not applicable to this return.

- b. Choose the appropriate options for **Activity Type** and **If Rental Real Estate**.
3. Click the **Income** and **AMT/Nondeductible/Other Info** tabs.
  4. Match each line on the 1065 K-1 with the corresponding 1065 line number on the screen.

## Suspended Loss Carryovers

1. Click the **Pass Loss Carryovers** tab.
2. Enter amounts for one partnership.

## MEDICAL EXPENSES

1. Select **Quick Track > Itemized Deductions**.

OR

Select **Itemized Deductions > Medical and Dental expenses**.

2. Enter **\$10,000** for medical expenses.



3. Enter the insurance reimbursement as a positive number. The system will subtract it from the other expenses.

## TIMELY QUARTERLY PAYMENTS

1. Select **Payments and Extensions > Estimated Tax Pmts.**
2. Enter **\$3,000** for each quarter.
3. From the Forms List window, select **Estimates and Penalties > Underpayment > 2210 Penalty.**
4. Under the **Prior Year Information** section, verify that the prior year tax liability is **\$9,000**.

## CHARITABLE CONTRIBUTION OF STOCK

1. Select **Itemized Deductions > Contributions > Section A Donated Property > Add New Organization Name.**
2. Enter **Denver Boys Club** and click **OK**.



Only Section A of Form 8283 is required.

3. Complete the top part of the screen.
4. Scroll down to enter the rest of the information.
5. Select the **30% CG OPTION** from the **AGI Limit** drop-down list.
6. Check the **Publicly Traded Security** check box.



The date fields are used for print only.

## ALTERNATIVE MINIMUM TAX

Generally, data entered throughout the system is automatically adjusted for alternative minimum tax and carried to Form 6251. However, the exercise of stock options will not create a transaction for regular tax until the stock is sold. But the adjustment item for alternative minimum tax necessitates recognition in the year of exercise. There is no place on the return that this data could carry from.

1. Select **Taxes > Alternative Minimum Tax > Alt Min Tax**.
2. Identify other similar adjustment and preference items. These are the items that do not include the **(Override)** indicator.
3. Enter **\$28,000** for the incentive stock option adjustment and **\$5,400** for the adjustment for research expenses.

## TRANSMITTAL LETTER/FILING INSTRUCTIONS

1. Select **Letters and Filing Instructions > General Options**.
2. Generate the letter by selecting **Transmittal Letter and Filing Instructions**. The system will automatically generate *Ogden, UT - Cincinnati* as the correct IRS Service Center for Colorado.
3. Verify that the **IRS Service Center (Override)** is set to *Automatic Generation*.

# REVIEWING THE RETURN

## Compute Before Review

1. Before reviewing the return, make sure your return is completely computed.
2. Select **Compute > Full Recompute** from the menu bar.

## Review

The complete return can be viewed on screen and any changes made before printing. Use Tax Forms to review the return. During your review, access supporting workpapers by selecting any field with blue arrows to the right of the field, and then check for diagnostics and overrides.

The review process consists of:

- Reviewing diagnostics and overrides
- Reviewing through Tax Forms
- Reviewing work papers
- Entering corrections and changes
- Reviewing through Print Preview.

## Print Preview

1. Access Print Preview to see the return as it will print.
2. View all statements by selecting **Print** on the menu bar.

## Diagnostics and Overrides

### DIAGNOSTICS

1. To review the diagnostics, select **View > Diagnostics**.
2. A screen displays a list of the diagnostics by type: *Severe*, *Informational*, or *E-file*.
3. To go to the screen where the diagnostic originates, select a diagnostic from the list.

### OVERRIDES

1. Viewing and accessing overrides works like the review of diagnostics explained above. Select the override to go to the screen where you entered the override.
2. Verify your overrides and clear any unnecessary overrides by clicking the overridden amount and selecting **Clear Override** from the right-click menu.



If you have entered data only through the Organizer screens, no overrides should exist.

## Comparison Screens

Once you have completed this case study, you can compare your entries with the master return completed using the same data. To compare the return you prepared to the master, select **Help > Case Study Comparisons** inside the return.

Differences between the amount in your return and the amount in the master return are noted in the **Difference** column. If you entered the data correctly, there should be no amounts in the **Difference** column.

If you have differences, begin by selecting **Compute > Full Recompute**.

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