1040 SMITH CASE STUDY FACTS (CASSMM)

Robert and Mary Smith are sample clients. You are going to prepare their 2024 return using the tax application. Your administrator has rolled over their 2023 files to 2024. The Smiths have brought you their information for 2024.

TARGETED AREAS

- Basic data entry techniques
- Navigating through the system
- Using Organizer and Tax Forms

RETURN INFORMATION

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TAXPAYER INFORMATION

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

   OR

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

2. Enter the following taxpayer information:

	TAXPAYER	**SPOUSE**
NAME	***Robert Smith***	***Mary Smith***
ADDRESS	***123 East Main St. New York, NY 10016***	
SSN	***123-45-6789***	***987-65-4321***
OCCUPATION	***Engineer***	***Executive***
DATE OF BIRTH	***01/01/1982***	***07/04/1983***

3. Verify the address information, Social Security numbers, and occupations for the taxpayers.
4. Verify that ***Married filing joint*** is selected. The filing status is a ***mandatory*** entry on the 1040 return.
5. Verify that Robert and Mary do not wish to contribute to the Election Campaign Fund.

DEPENDENT INFORMATION

1. Select **Quick Track > Dependent Information**.

   OR

   Select **General Information > Dependents > Dependent Input**.

2. Enter ***Thomas Smith***.

3. Enter information for Thomas:

SSN	***321-54-9876***
TIME LIVED WITH PARENTS IN TAX YEAR	***12 months***
DATE OF BIRTH	***10/31/2014***

ESTIMATES AND PENALTIES

Verify the Smiths' 2023 tax liabilities and adjusted gross income were rolled over correctly from 2023.

1. Select **Estimates and Penalties > Underpayment > 2210 Penalty**.

2. Enter the following:

SMITHS' 2023 TAX LIABILITY	***$ 36,035***
SMITHS' 2023 ADJUSTED GROSS INCOME (REQUIRED TO BE USED IF A PENALTY IS CALCULATED)	***$174,047***

Form 2210 will only print if there is a current year penalty calculated.

W-2 INFORMATION

1. Select **Quick Track > W-2 Wages & Salaries**.

   OR

Select **Source Documents > W-2**.

2. Enter the following information from Robert Smith's W-2 from *Major, Inc.*:

WAGES (ALSO USED FOR MEDICARE)	***$157,000***
SOCIAL SECURITY WAGES	***$ 106,800***
FEDERAL TAX WITHHELD	***$ 43,900***
SOCIAL SECURITY TAX WITHHELD	***$ 6,621.60***
MEDICARE WAGES	***$157,000***
MEDICARE TAX WITHHELD	***$ 2,277***
NEW YORK STATE TAX WITHHELD	***$ 6,000***

INTEREST INCOME

1. Select **Quick Track > 1099-INT Interest**.

   OR

   Select **Source Documents > 1099-INT/1099-OID**.

2. The Smiths received a 1099 statement showing the interest they earned from National Bank for ***$1,732***.

How to Delete Interest items: Select the interest item you want to delete, then press the **Delete** key. Click **OK** to delete the interest item.

DIVIDEND INCOME

1. Select **Quick Track > 1099-DIV Dividend**.

   OR

   Select **Source Documents > 1099-DIV**.

2. The Smiths jointly owned the Minor, Inc. stock and received an ordinary dividend in 2024.

   Select **Add new 1099-DIV payer**.

3. Enter ***Minor, Inc.*** and click **OK**.

4. Enter **Ordinary Dividends** in the amount of ***$ 2,900***.

The ordinary dividend income carries to Schedule B (and capital gains distribution information would carry to Schedule D if the Smiths had any capital gain distributions).

BUSINESS INFORMATION

Mary Smith started a small business in 2017, which she reported on Schedule C last year.

1. Select **Quick Track > Business Income**.

   OR

   Select **Income > Business Income > Mary's Baubles Business Information**.

2. Verify the **Spouse** radio button to indicate that this Schedule C belongs to Mary.

3. Verify ***1*** for the activity number. (Activity numbers are required if you have more than one Schedule C.)

4. Verify that the **EIN#** is ***95-0101010***.

5. Verify that the **Accounting Method** is ***Cash***.

6. Verify that the **Inventory Valuation method** is ***Cost***.

7. Verify that Mary Smith's material participation in the business is indicated under **Miscellaneous Information**.

To enter business income and expenses:

1. Click the **Sch C Inc/Exp** tab at the top of this form.
2. Under **Gross receipts or sales**, enter the following:

SALE OF JEWELRY	***$ 26,150***
RETURNS AND ALLOWANCES	***$ 370***

3. She had the following items related to **Cost of Goods sold**:

BEGINNING INVENTORY	***$ 2,500***
PURCHASES	***$ 11,700***
ENDING INVENTORY	***$ 2,975***

4. Enter the following expenses:

ADVERTISING	***$ 100***
INSURANCE	***$ 750***
LEGAL AND PROFESSIONAL FEES	***$ 600***

Depreciation Information

The depreciation on the desktop computer that Mary Smith uses for her business should be entered in the **Business Income** part of the Organizer.

1. Under **Mary's Baubles**, select **Depreciation and Amortization > Asset Detail > Add new Asset**.
2. Enter the following asset information: ***Desktop Computer***. Click **OK** (or press **Enter**).

3. Enter the following information for the desktop computer:

DATE PLACED IN SERVICE	***04/15/2024***
COST	***$ 3,500***
METHOD	***5-year MACRS***

> Before you delete any asset, turn **Auto Compute** off and then delete the asset from the Organizer navigation tree by pressing the **Delete** key.
>
> Leave the **Life** field blank. The system, by default, uses the 5-year life for 5 Year modified accelerated cost recovery property.
>
> Drop-down lists of alternative tax treatments facilitate entering assets for depreciation.

4. Select the **Listed** radio button under **Property Type**.
5. In addition, Mary only uses the computer ***75%*** of the time for business. Enter her business use percent now. (Entry is needed here if business use is other than 100%.)

SCHEDULE K-1

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

   OR

   Select **Income > Schedule K-1 > Hightec LTD > Schedule K-1 Information**.
2. Hightec, LTD, an existing K-1, was rolled over from 2023.

3. Select the **Income** tab, and enter the following:

ORDINARY LOSS	***$3,000***
PORTFOLIO INTEREST	***$ 75***
PORTFOLIO DIVIDENDS	***$ 130***

4. Select the **AMT/Nondeductible/Other Info** tab, and enter the following information for *Post-1986 depreciation*: ***$ 785****

5. Select the **Pass Loss Carryovers** tab, and verify the **Prior Year Suspended Loss Carryovers from 2023**.

REG. TAX OPERATING	$2,784
ALT MIN TAX OPERATING	$3,216

* This may be relevant for AMT tax.

ESTIMATED TAX PAYMENTS

1. Select **Quick Track > Estimated Tax Payments**.

   OR

   Select **Itemized Deductions > Taxes and Interest > Estimated Tax Payments**.

2. For the **Federal Estimated tax payments**, verify that ***$250*** was paid in each quarter.

3. For the **State Estimated Tax payments**, scroll down and select ***New York*** under **State** or **City**.

4. Verify the following:

   - ***$ 100*** was paid in first three quarter installments.
   - ***$ 200*** was for the fourth quarter installment on ***01/15/2025***.

All estimated tax payments were made timely.

STATE TAXES

1. Select **Income > Miscellaneous Income > Miscellaneous Income > Miscellaneous Income**.
2. The Smiths received a refund on their State Tax Return of ***$519***.
3. Verify their 2024 Schedule A deductions. Under **Income > Miscellaneous Income > Sch A Info. State/Local Tax Refund**, verify the following:

SCHEDULE A DEDUCTIONS	***$ 28,033***
SCHEDULE A, LINE 5D	***$519***
SCHEDULE A, LINE 5E	***$519***

The Smiths filed a joint return last year.

ITEMIZED DEDUCTIONS

1. Select **Quick Track > 1098 Mortgage Interest > Add new Form 1098**.

   OR

   Select **Source Documents > Form 1098 - Mortgage Interest and Taxes > Add new 1098**.
2. Enter Mortgage Interest information:

MORTGAGE INTEREST	***$15,566***
REAL ESTATE TAXES	***$ 4,850***

CURRENT-YEAR CASH CONTRIBUTIONS

1. Select **Itemized Deductions > Contributions > Contributions-CY and Carryovers**.
2. Enter the following:

BOY/GIRLS SCOUTS	***$ 550***
UNITED WAY	***$ 1,000***
CANCER SOCIETY	***$ 1,000***

CREDIT FOR PRIOR YEAR MINIMUM TAX

1. Select **Credits > Prior Year AMT**.
2. Verify taxable income from the 2023 Form 6251, sum of lines 1 and 2e: ***$155,543***.
3. Verify adjustments and preferences treated as exclusion items: ***$ 10,762***.
4. Verify the exemption amount from the line 5 worksheet of the 2023 Form 6251: ***$ 43,614***.
5. Verify the phase-out of exemption from the line 5 worksheet of the 2023 Form 6251: ***$156,500***.
6. Verify the amount of regular tax before credits minus foreign tax credit from line 10 of the 2023 Form 6251: ***$ 34,257***.

The credit form does not automatically print if a credit is not allowed or a carryover calculated. You can force print it using the AMT credit overrides.

COMPARISON OF CURRENT YEAR TO PRIOR YEAR

You should always take time to generate a comparison report in hard copy that compares against last year's data to help insure the return is complete and you have received all the information from the taxpayer.

Verify the 2023 comparative information.

1. Select **Comparison and Reconciliation > Comparison of Current to Prior Year**.
2. Select the **Generate current year/prior year comparison** check box.
3. The information should be rolled over from the 2023 tax return as follows:

WAGES, SALARIES, TIPS, ETC.		$157,000
TAXABLE INTEREST		$ 1,807
ORDINARY DIVIDENDS		$ 3,030
TAXABLE REFUNDS, CREDITS, OR OFFSETS		$ 519
BUSINESS INCOME OR (LOSS)		$ 12,580
ADJUSTMENTS TO GROSS INCOME	ONE-HALF OF SELF EMPLOYMENT TAX	$ 889
ITEMIZED DEDUCTIONS AND EXEMPTIONS	TAXES	$ 11,150
	INTEREST	$ 15,566
	CONTRIBUTIONS	$ 2,550
TAX LIABILITY	GROSS INCOME TAX	$ 36,035
	OTHER TAXES	$ 1,778
	WITHHOLDING	$ 43,900
	ESTIMATED TAX AND OTHER PAYMENTS	$ 1,000

To view the comparison:

1. Select **Tax Forms**.
2. Select **Comparison of Current to Prior Year**.

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**.