Practice Return 4

This return has

- Disabled Brother
- Unemployment Income
- 1099-Misc Income
- Interest Income
- Customer wants to have their refund directly deposited into their own checking account and have all fees deducted from their refund.

How to complete Schedule C-Business Profit or Loss Worksheet

This form must be completed for each 1099-Misc and each separate business the taxpayer may own. Many clients were not paid with a W-2, but were given a 1099-Misc from their employer. This income is entered on Schedule C. Actually, the person is considered to have "self-employed" income as far as the IRS is concerned. Unknown to many of our clients, they will have to pay a self-employment tax. This, simply put, is basically the social security and Medicare tax that would have been withheld throughout the year had the taxpayer been paid as an employee. In that case, he would have been issued a W-2 form.

For self-employed individuals, they must have Self-Employment Worksheet completed. We are not accountants, only tax preparers. Taxpayers must complete this form by totaling their income and their business deductions.

Describe the basic type of business, such as construction, beautician, janitor, etc. Business Code, will give you fits.

Part I

For the total income, this is clearly indicated on the 1099-Misc forms. The Self-Employment Worksheet has a space to indicate the gross income for the business.

Scroll to Part II Expenses.

If the self-employment income is based on a 1099-Misc, most taxpayers will not have any expenses to claim. True businesses will, however, have legitimate business expenses. Inform the taxpayer that if audited, they will need to produce supporting data for both their income and their deductions.

If there are any vehicle expenses such as mileage, scroll to the end of this section and click on "Add Asset". At this point, you are to answer the questions concerning the vehicle used in this business. Description refers to the type vehicle, such as Cherokee Jeep. Class of Asset usually will be lightweight truck. Check yes for listed property. As a general rule, do not depreciate the vehicle, but rather, claim the number of business miles driven for that tax year.

INTERVIEW SHEET

TAXPAYER INFORMATION Rev. 10/2010

SOCIAL SECURITY # **598- -4921**	**1.Filing Status** ☐ Single ☐ MFJ ☐ MFS X HOH ☐ Widow (er)	**Date Of Birth** (DOB) 12/13/1989
Number of Exemptions **3** (Taxpayer=1, Spouse=1, each Dependent=1)	Can you be claimed as a dependent on another person's tax return? ☐Yes X NO	
FIRST NAME **Brad**	**LAST NAME** **Cole**	**OCCUPATION** **Sales**
Mailing Address X Rent ☐ Own **234 Main Street**	**HOME PHONE #** **404-925-5555**	
CITY/STATE/ZIP **Clinton, MS 39056**	**DAY PHONE #** **678-925-6666**	**CELL PHONE #** **678-925-7777**
Refund Option ☐ IRAL ☐ RAL X ERD X DIRECT DEPOSIT ☐ MAIL-IN	**Are you or a member of your household in the military?** ☐Yes **X** NO	

SPOUSE INFORMATION If filing a MFJ or MFS, or Qualifying Widower, you must complete the following:

SPOUSE'S NAME	SOCIAL SECURITY NUMBER	OCCUPATION
SPOUSE'S ADDRESS	DATE OF BIRTH	DATE OF DEATH

DEPENDENT INFORMATION You are not limited to three dependents. Use back of page and tell your preparer.

FIRST NAME	LAST NAME	SOCIAL SECURITY NUMBER	BIRTHDATE	RELATIONSHIP	# OF MONTHS LIVED IN HOME	AGE OF CHILD	FULLTIME STUDENT	DISABLED	PAID CHILD CARE FOR
John	**Cole**	**425-89-0010**	**02/12/1975**	**Brother**	**9**	**34**		x	
Susan	**James**	**587-45-7865**	**4/15/1999**	**Daughter**	**12**	**10**			

CHECK THE BOXES BELOW
☐Yes **X** NO You paid child care for dependent
☐Yes **X** NO You paid college expenses for you or a dependent
☐Yes **X** NO You purchased a home in 2009
☐Yes **X** NO You have deductions to itemize
XYes ☐ NO You have other sources of income (1099's,etc)
1 # Of W-2 forms from different employers

COULD YOU PROVIDE THE FOLLOWING ?
X Yes ☐ NO IF the dependent is **not** your natural child, Birth Certificates, marriage certificates, OR foster child papers?
☐Yes ☐ NO If the dependent is a student over age 19, school records proving the child was a full-time student?
X Yes ☐ NO If your dependent is disabled, do you have written verification from a medical authority?
X Yes ☐ NO School, doctor records, etc., proving the child lived with you?

I have read the "Consent to Use of Tax Return Information" form prior to signing.
With my signature below I am verifying the tax information given to prepare my taxes is true. I release the owners and employees of my tax preparation office from having any knowledge of fraudulent tax claims.

SIGNATURE ____DATE_______

The income from this 1099-misc should be entered on a Schedule C. Anytime you attach a Schedule C to a tax return, please complete the Tax Preparer Schedule C/Self Employment Questionnaire.

Form 1099-MISC Miscellaneous Income

Payer's Name, Address & ZIP Code THE JEWELRY STORE MEMPHIS TN 38187-0000	1 Rents	Link to (1040, Sch C or E)
	2 Royalties	Link to (Sch E)
Payer's Fed ID: 56-1234567 Recipient's SSN: 598-00-4921	3 Other income SE/EIC	Link to (1040, Sch C, E or F)
Recipient's name BRAD COLE		4 Federal tax withheld
	5 Fishing boat proceeds Link to (Sch C / C-EZ)	6 Medical & health care pmts Link to (Sch C)
	7 Nonemployee Comp 7,800 Link to (1040, Sch C or F)	8 Substitute payments in lieu of dividends or interest linked to Form 1040.
15a Section 409A deferrals	9 Direct sales of $5000 or more	10 Crop insurance proceeds Link to (Sch F)
15b Section 409A income	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney
16 State tax withheld	17 State Code/Use: ID:	18 State income

Form 1099-INT Interest Income

Payer's Name BURNETT BANK		
Payer's Fed ID: 59-8976541 Recipient's SSN: 598-00-4921	1 Interest income (not included in Box 3) 50	
Recipient's Name BRAD COLE	2 Early Withdrawal Penalty	3 Savings Bond Interest
	4 Federal Tax Withheld	5 Investment Expense
	6 Foreign Tax Paid	7 Foreign Country
State Code:	8 Tax Exempt Interest	9 Private Activity Bond

Tax returns having disabled, non-standard dependents claimed for EITC are high on the priority list for scrutiny by the IRS. You know this taxpayer and have heard that his brother does live with him and is disabled. In order to protect you as the tax preparer, what additional questions will you ask this client? How will you document this?

There are red flags concerning the taxpayer and his daughter. What are they? What additional questions should you ask? Use the EITC due diligence documentation worksheet on the following pages.

Assuming all answers satisfy you, the tax preparer, complete the return. You will need to prepare the return as an ERC, but go an additional step in order to have fees automatically deducted from the taxpayer's refund. You need to enter the customer's own checking/savings account information. Be careful that you set up a "pass through account.

EARNED INCOME CREDIT
ADDITIONAL DOCUMENTATION

Complete the following questions, as applicable.

1. If the dependent is **not** your natural child, enter documents available to prove relationship (credentials could include birth certificates, adoption records, foster care papers or marriage certificates as necessary).

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2. If the dependent is a student between the ages of 19 and 24, enter documents available to prove the dependent was enrolled full-time at a school for at least five months of the tax year.

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3. If the dependent is disabled, list the documents from authorized medical/government sources proving disability.

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4. List documents available showing the child/children lived with the taxpayer for more than six months. (documents include school records, medical records, rent/lease contracts, or letters from a professional)

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5. In cases where there is a seemingly unreasonable age difference between the taxpayer and the dependent, explain.

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6. If the **taxpayer** is under age 19, explain how he or she is not a qualifying child of another person.

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The information supplied by the taxpayer and their answers to additional inquiries appears to be correct, consistent, complete and reasonable.

Tax Preparer's signature _________________________________ Date _____________

TAX PREPARER
SCHEDULE C /SELF EMPLOYMENT
QUESTIONAIRE

Describe the type of documentation your client has for the following. Note whether or not you visualized the documentation.

Income (1099-Misc, bank records, receipts, etc.)

Expenses (receipts, bank records, credit card statements, etc.). If no expenses, what is the taxpayer's explanation?

Vehicle Mileage (log book, repair tickets, proof of gasoline purchases, oil change records, or any other documents to prove the cost of miles driven)

Basis of Depreciable Assets (ex/contracts, receipts)

Additional documentation not mentioned above

The information supplied by the taxpayer and their answers to additional inquiries appears to be correct, consistent, complete and reasonable.

Tax Preparer's signature ___________________________________ Date ______________

Taxpayer Name: Brad Cole **SSN:** 598-11-4921

Tax Return Summary

Taxpayer Name: Brad Cole **SSN:** 598-11-4921

Tax Return Summary

2009 Federal 1040Bus Tax Return:	Actual	Estimated
Gross Income:	$7,850.00	$7,850.00
Adjustments to Income:	$551.00	$551.00
Adjusted Gross Income:	$7,299.00	$7,299.00
Deductions:	$8,350.00	$8,350.00
Exemptions:	$10,950.00	$10,950.00
Taxable Income:	$0.00	$-12,001.00
Tax:	$0.00	$0.00
Credits:	$0.00	$0.00
Other Taxes:	$0.00	$1,102.00
Total Tax:	$1,102.00	$1,102.00
Tax Payments:	$0.00	$0.00
Making Work Pay Credit:	$400.00	$400.00
Earned Income Credit:	$2,890.00	$2,890.00
Additional Child Tax Credit:	$637.00	$637.00
Refundable Education Credit:	$0.00	$0.00
First Time Home Buyer Credit:	$0.00	$0.00
Refund Amount:	$2,825.00	$2,825.00
Resident Tax Return:		
Taxable Income:	$0.00	
Total Tax:	$0.00	
Refund Amount:	$0.00	
Non-Resident Tax Return:		
Taxable Income:	$0.00	
Total Tax:	$0.00	
Refund Amount:	$0.00	