



TRAVERSING THE CHANGING TIDES OF CHILD SUPPORT



CHILD SUPPORT DIRECTORS ASSOCIATION

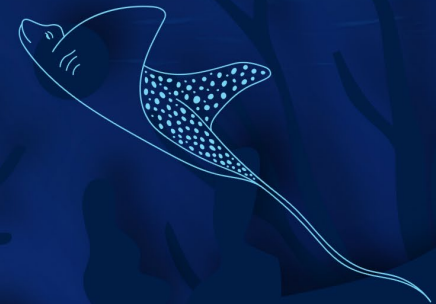


NAVIGATING THE NUMBERS

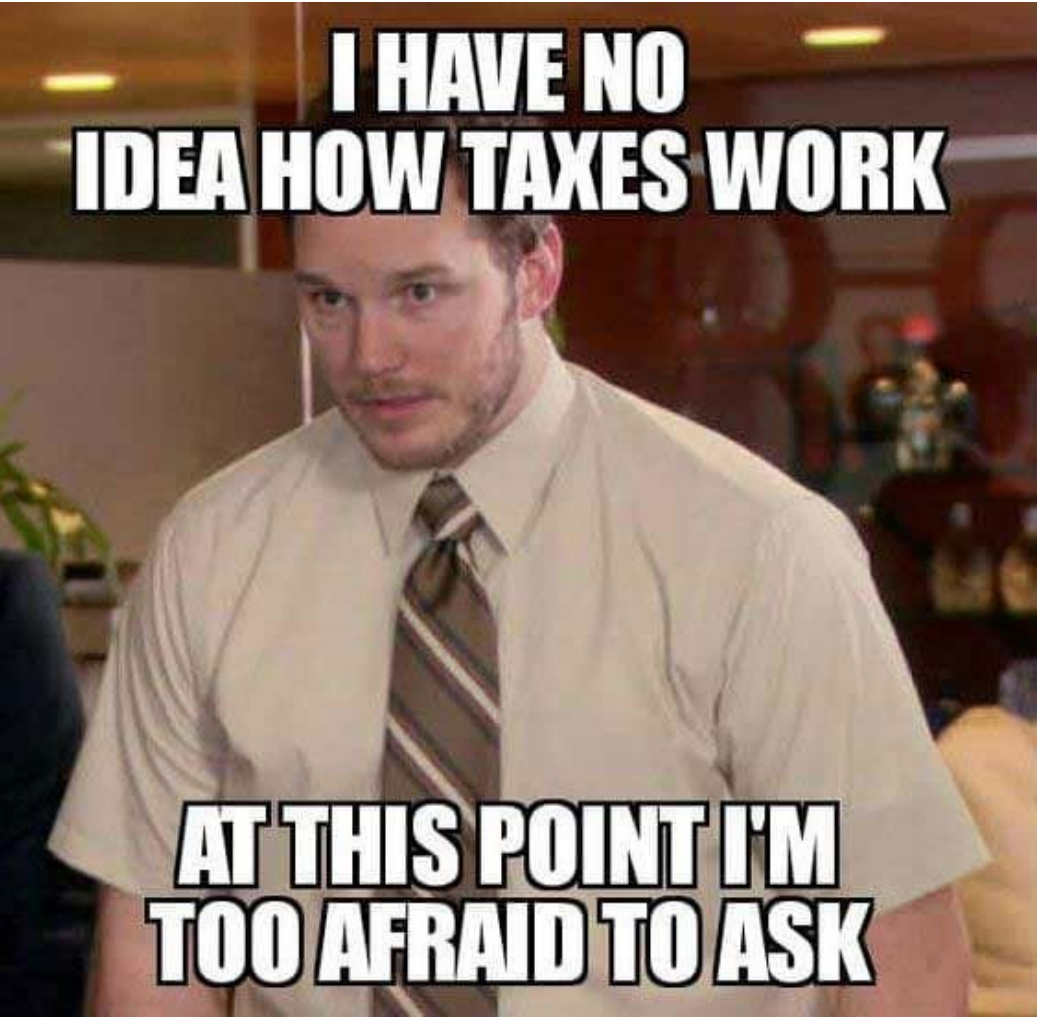
A DEEP DIVE INTO TAX RETURN ANALYSIS

Presented by:

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CHILD SUPPORT DIRECTORS ASSOCIATION





Introduction and Overview



FORMS THAT WILL BE DISCUSSED

- ⚓ 1040 Form
- ⚓ Schedule 1
- ⚓ Schedules A – E
- ⚓ Form 1120 / 1120-S
- ⚓ Form 1065
- ⚓ Schedule K-1
- ⚓ Schedule F





Tips



- ⚓ Break down tax return
- ⚓ Reorganize tax return
- ⚓ Request supporting documentation
- ⚓ Do your own research into the type of business being operated if party is self-employed



⚓ CONSIDER THE **PURPOSE** OF THE ANALYSIS OF THE TAX RETURNS

- ◆ Are you responding to a downward modification?
- ◆ Are you attempting to establish support?

⚓ Disclaimer in pleading/declaration

- ◆ “If either party disagrees with the assessment, DCSS recommends they hire a forensic accountant to review the tax returns and financial documentation provided. This is beyond the scope of DCSS attorneys to analyze further.”





1040 Form

U.S. Individual Income Tax Return

- ⚓ Standard individual tax return
- ⚓ What does it show?
 - ◆ Income
 - ◆ Tax deductions and credits
 - ◆ Tax liability
- ⚓ See **Handout # 1** for key highlighted information to pay particular attention





Schedule 1

Additional Income and Adjustments to Income

- ⚓ Allows a person to claim additional sources of income that aren't listed on Form 1040.
- ⚓ Wide range of income sources:
 - ◆ Business income
 - ◆ Rental income
 - ◆ Unemployment compensation
 - ◆ Spousal support/Alimony
 - ◆ Dividends
 - ◆ Prize or award money
 - ◆ Gambling winnings

See **Handout #2**





Schedule A

Itemized Deductions

For child support calculation purposes, pay attention to following:

- ⚓ Mortgage Interest
- ⚓ Property Tax
- ⚓ Medical Expenses
- ⚓ Deductible Interest Expense
- ⚓ Charitable Contributions

See **Handout #3**



Schedule B



Interest and Ordinary Dividends

Report taxable interest and ordinary dividends over \$1,500.00

⚓ Taxable Interest Income

- ◆ Revenue from interest bearing assets
 - Saving accounts
 - Certificates of Deposits (CDs)
 - Bonds
 - Loans



Interest and Ordinary Dividends

⚓ Ordinary Dividends

- ◆ Also known as “Non-Qualified Dividends”
- ◆ Distribution of a company’s earnings/profits to shareholders on a regular basis
- ◆ Taxed as ordinary income based on taxpayer’s regular income tax rate
- ◆ Beware that these are **not** qualified dividends that are taxed at a lower capital gains rate



Schedule B - Continued



Interest and Ordinary Dividends

⚓ Ordinary Dividends-Cont'd

◆ 1099-DIV

- Taxpayer receives form if they:
 - earn at least \$10 in dividends in a taxable brokerage account
 - receive capital gains distribution from a mutual fund
- Form shows if income is ordinary/non-qualified or qualified

⚓ See **Handout #4**





Schedule C

Profit and Loss From Sole Proprietorship Business

- ⚓ Schedule C calculates net profit or loss from a business, which is then reported on the taxpayer's personal income tax return (Form 1040).
- ⚓ Business is an activity in which the primary purpose is to generate income/profit, and there is continuity and regularity in the activity.



Schedule C

Profit and Loss From Sole Proprietorship Business

you don't pay income tax



if you don't have an income



Schedule C

Profit and Loss From Sole Proprietorship Business

Questions to Ask When Reviewing Schedule

- ⚓ What type of business is it? What is the primary industry or activity?
- ⚓ What type of accounting does business use? (cash v. accrual)
- ⚓ What level of investment or expenses is the owner putting into the business?
- ⚓ Are there opportunities for personal expenses or assets to be comingled with the business?





Schedule C

Profit and Loss From Sole Proprietorship Business

Income

- ⚓ Gross Income = Business Receipts/Sales **minus** Cost of Goods Sold.
 - ◆ Cost of Goods Sold refers to the direct costs incurred in the production of goods sold by a company such as direct materials, labor, packaging, and shipping.

- ⚓ Net Profit (or Loss) = Gross Income **minus** Expenses.





Schedule C

Profit and Loss From Sole Proprietorship Business Expenses

- ⚓ Some of the expenses on the Schedule C that are legitimate for the IRS are not legitimate for the purpose of calculating income for child support purposes.
- ⚓ *IRMO Chakko(2004) 115 Cal.App.4th 104*
 - ◆ A parent cannot structure income and expenses of a business in an attempt to minimize child support obligations.





Schedule C

Profit and Loss From Sole Proprietorship Business

Add Back Approach

- ⚓ Take net profit and add in expenses that are:
 - ◆ Not ordinary, necessary or required for the business
 - ◆ Not **directly** associated with day-to-day operations of business
 - ◆ Paper expenditures
 - ◆ Unreasonable (expenses are inflated)
 - ◆ Personal expenses





Schedule C

Profit and Loss From Sole Proprietorship Business

Expenses - Depreciation

- ⚓ General rule, add back depreciation but consider:
 - ◆ Can the business operate without this depreciation?
 - ◆ If depreciation is associated with real property, then most likely it is considered a “paper loss” and added back in.
 - ◆ If depreciation is associated with tools that are essential to the business, the court may allow this deduction.
 - ◆ If depreciation is associated with rental property or a vehicle, it is considered a “paper loss” and added back in.





Schedule C

Profit and Loss From Sole Proprietorship Business

Expenses-Depreciation

- ⚓ Rental Property /Motor Vehicles:
 - ◆ Not deductible expenses from a parent's income for calculation of child support.

- ⚓ Cases:
 - ◆ *Asfaw v Woldeberhan* (2007) 147 Cal.App.4th 1407,1425
 - ◆ *IRMO Blazer* (2009) 176 Cal.App.4th 1438





Schedule C

Profit and Loss From Sole Proprietorship Business

Expenses-Vehicles/ Travel/Entertainment/Meals

- ⚓ Look if the expense is necessary to business.
- ⚓ Is the amount inflated?
- ⚓ Are vehicle, meals or travel personal expenses?





Schedule C

Profit and Loss From Sole Proprietorship Business

Expenses-Home Office

- ⚓ IRS allows deduction if the space:
- ♦ Is exclusively and regularly used as the principal place of business.
 - ♦ Is exclusive and regular space for business meetings or client interaction in a normal course of business.
 - ♦ IRS Publication 587





Schedule C



Profit and Loss From Sole Proprietorship Business

Expenses - Interest

- ⚓ This is interest being charged on a business debt.
- ⚓ Keep in mind:
 - ◆ What business purchases are associated with the interest deducted?
 - ◆ Did the business deduct the entire cost of the claimed item in the tax year, or did business actually pay on the cost over time through a line of credit or credit card?
 - ◆ Did the business expense the entire asset in one tax year and then depreciate it the following tax year?





Schedule C

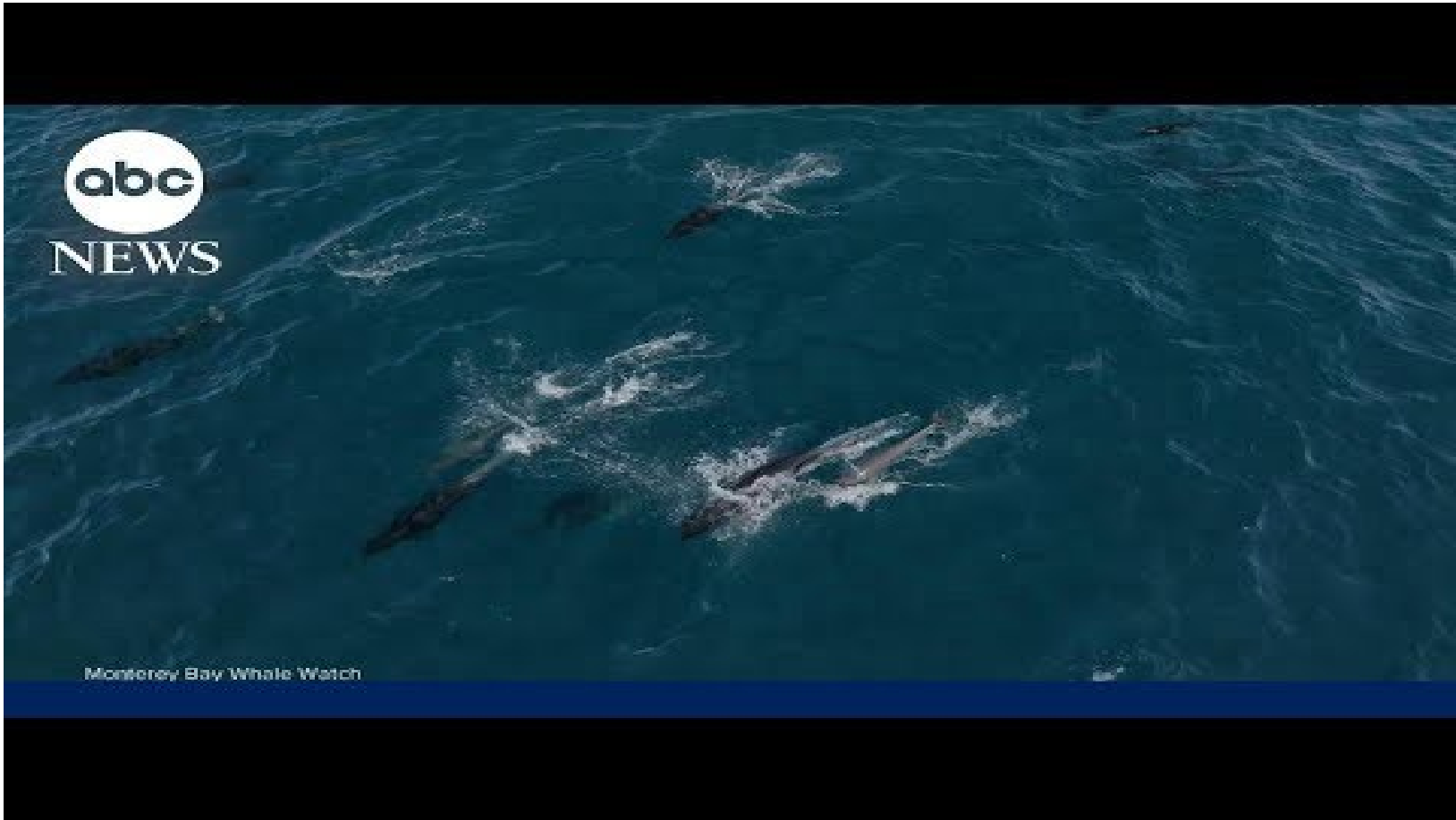
Profit and Loss From Sole Proprietorship Business

Self-Employment Scenario-Handout #5

- ⚓ Facts: Brad Smitt is an insurance agent and owns Got U Covered Insurance.
- ⚓ Analysis:
 - ◆ Are expenses reasonable and necessary based on type of business?
 - ◆ What do you add back into Net Profit?



Super Pod





Schedule D

Capital Gains and Losses

- ⚓ Form is used to report capital gains and losses from sale of capital assets.
- ⚓ What are capital assets?
 - ◆ Stocks
 - ◆ Bonds
 - ◆ Real Estate (personal or investment property)
 - ◆ Crypto
 - ◆ Car
 - ◆ Art
 - ◆ Collectibles





Schedule D - Continued



Capital Gains and Losses

Form 8949 (Sales and Other Dispositions of Capital Assets)

⚓ Lists individual Transactions:

- ◆ Short Term Assets (held 1 year or less)
- ◆ Long Term Assets (held over a year)
- ◆ Transactions reported on 1099-B form (stock, bonds, crypto, other securities)

⚓ Other forms associated with Form 8949:

- ◆ Form 2439: Notice to Shareholder of Undistributed Long-Term Capital Gains
- ◆ Form 6242: Installment Sale Income
- ◆ Form 4797: Sales of Business Property
- ◆ Form 4684: Casualties and Thefts
- ◆ Form 6781: Gains and Losses from Section 1256 Contracts and Straddles
- ◆ Form 8824: Like-Kind Exchanges
- ◆ Schedule K-1





Schedule D

Capital Gains and Losses

⚓ Sale of business as income:

- ◆ If cash is received from sale of business, and it is not reinvested as capital, the court has discretion to assign a reasonable rate of return on the amount received.
- ◆ If the sale of the business is reinvested into another income producing asset, money from the sale is NOT considered income for child support purposes
- ◆ *IRMO Destein* (2001) 91 Cal.App. 1385

See **Handout #6**



Supplemental Income and Loss

⚓ Reports income or losses from following sources:

- ◆ **Rental Real Estate:** Income and expenses from rental properties.
- ◆ **Royalties:** Income earned from licensing intellectual property.
- ◆ **Partnerships and S Corporations:** Income and losses from partnerships or S corporations.
- ◆ **Estates and Trusts:** Income and losses from estates and trusts.
- ◆ **Residual Interests in REMICs:** Income from residual interests in real estate mortgage investment conduits.



Schedule E – Continued



Supplemental Income and Loss

Rental Real Estate

- ⚓ Rental income is any payment received for the use or occupation of property.
- ⚓ Taxable rental income = gross income of rent received minus expenses for renting the property.





Schedule E

Supplemental Income and Loss

Rental Real Estate

- ⚓ Consider the following:
- ◆ Does the property owner show a loss or minimal gains while property owner is increasing equity that will not be fully realized until after the child emancipates?
 - ◆ Is property a true rental or only portrayed that way for tax purposes?
 - ◆ Is rent being charged at fair value rate?





Schedule E

Supplemental Income and Loss

Rental Real Estate

- ⚓ Add back approach
 - ◆ Take net profit and add back any expenses that are not reasonable/necessary or that are for party's personal benefit.
 - Are repairs legitimate or are they improvements to enhance equity and value of property?
 - Were repairs done on the rental property or owner's own residence?
 - Is inflated gas mileage claimed?
- ⚓ Depreciation - paper loss so add back in.





Schedule E

Supplemental Income and Loss

Rental Real Estate

⚓ *In Re Marriage of de Guigne* (2002) 97Cal.App.4th 1353

- ◆ Court has discretion to deviate from guideline support, upward, if an obligor has extensive property holding that do not produce income.





Schedule E

Supplemental Income and Loss

Rental Income Scenario-Handout #7

- ⚓ PPS Flint Eastwood a resident of Pebble Beach provided LCSEA with his Federal Tax Returns (1040 form, Schedule 1, Schedule C, Schedule E).
- ⚓ Initial review shows that PPS is self-employed in real estate and owns several rental properties.





Schedule E

Supplemental Income and Loss

Rental Income Scenario-Cont'd (Handout #7)

⚓ 1040 Form reveals:

- ◆ \$5,620 in interest from various savings accounts
- ◆ \$80,112 Additional Income as listed in Schedule 1
- ◆ Total income of \$85,732
- ◆ Itemized deduction of \$20,800 and QBID of \$12,986 for total of \$33,786
- ◆ Taxable income listed as \$51,946





Schedule E



Supplemental Income and Loss

Rental Income Scenario-Cont'd (Handout #7)

⚓ Schedule 1 reveals:

- ◆ Business loss of **\$12,621**
- ◆ Rental Real Estate income of \$92,733
- ◆ For income of \$80,112 (\$92,733 - \$12,621)

⚓ Schedule C reveals:

- ◆ Gross income of \$2,385
- ◆ Expenses of \$12,621
- ◆ Net loss of **\$12,621**





Schedule E

Rental Income Scenario

Rental Income Scenario-Cont'd (Handout #7)

- ⚓ Schedule E reveals
 - ◆ Total income of \$95,976 with a \$3,243 loss for one of the properties which resulted in Total Income of \$92,733.
- ⚓ Analysis of Schedule E
 - ◆ Look at address of the properties.
 - ◆ Are expenses reasonable and necessary?



Schedule E

Supplemental Income and Loss

Rental Income Scenario-Cont'd (Handout #7)

- ⚓ Add Back Approach:
 - ◆ Add back auto expense of \$3,281.00 (1/2 of total expenses)
 - ◆ Add back depreciation of \$49,744.00 (line 23d)
 - ◆ TOTAL = \$53,025.00
- ⚓ Added these amounts to the total rental income of \$92,733.00
- ⚓ New Rental Income = \$145,758.00



Schedule E

Supplemental Income and Loss

Rental Income Scenario-Cont'd (Handout #7)

- ⚓ What is Flint Eastwood's monthly income?
 - ◆ Rental Income = \$12,147.00 ($\$145,758 \div 12$ months)
- ⚓ But wait...
 - ◆ Would it be \$7,728.00 rental income ($\$92,733$ (schedule 1) $\div 12$ months) and Tax-Free Income of \$5,456.00 ($\$145,578 - \$80,112 = \$65,466.00 \div 12$)
 - ◆ Interest Income = \$468 ($\$5,620 \div 12$ months)
 - ◆ Business Income = \$0.00





Schedule E

Supplemental Income and Loss

Partnership and S Corporations

- ⚓ Schedule E is used to report income or loss that a partner receives from a partnership.
- ⚓ Each partner receives a Schedule K-1 from the partnership, which details their share of partnership income, deductions and credits. All this info is reported on Schedule E.



Corporations (C Corp)

- ⚓ Legal entity formed by filing articles of incorporation within a state.
- ⚓ Owned by shareholders that elect a board of directors that manage company.
- ⚓ Subject to double taxation:
 - ◆ Corporate taxes are paid on profits.
 - ◆ Shareholders pay taxes on dividends.

Partnerships / S Corporations

- ⚓ 2 or more individuals share ownership and responsibility.
- ⚓ Formed by simple agreement; no formal registration.
- ⚓ Pass through entity in that they do not pay business income tax.
- ⚓ Profits and losses are reported on partners' personal tax return, and pay taxes at individual rates.



Types of Business Structure and Associated Forms

- ⚓ Partnerships: Form 1065 (business), Schedule E, Schedule K-1 (partners)
- ⚓ Limited Liability Companies(LLC): Schedule C with Form 1040 for single members and Form 1065 with Schedule K-1 for multiple members
- ⚓ S Corporations: Schedule E, 1120-S and K-1
- ⚓ C Corporations: Form 1120





Form 1120

Corporations

U.S. Corporation Income Tax Return

- ⚓ Corporation is a legal and tax entity by itself that must file a corporate tax return (Form 1120) and pay taxes at the corporate level.
- ⚓ Sometimes small business owners incorporate to protect personal assets. If that is the case, analyze the form like a Schedule C.
 - ◆ Ask:
 - Are corporate and personal funds being comingled?
 - Is the location of corporation the personal residence of the party?
 - Are personal debts being paid by the corporation?
 - Who are the corporate officers?





Form 1120

Corporations

U.S. Corporation Income Tax Return

- ⚓ Compensation of Officers:
 - ◆ Income distributed to officers, owners and/or shareholders of a corporation is taxed and considered personal income.
- ⚓ Compare Form 1120 corporate tax return and schedules to party's personal 1040 form and schedules.
- ⚓ Find out who controls distributions.
- ⚓ Find out if there are monetary reserves that are not being distributed, and, if so, they should be considered income.



S Corporations

U.S. Income Tax Return for an S Corporation

- ✦ S Corporation is a business structure with 100 shareholders or less that allows income, losses, deductions and credits to be passed directly to shareholders for federal tax purposes, avoiding double taxation at the corporate level.
- ✦ This structure is often chosen by small businesses for its tax benefits, and it allows profits to be taxed at the individual level rather than corporate level.





Form 1120S

S Corporations

U.S. Income Tax Return for an S Corporation

- ⚓ Income is calculated similar to sole business owner that uses a Schedule C.
- ⚓ Gross income is gross receipts/sales minus cost of goods sold.





Form 1120S

S Corporations

U.S. Income Tax Return for an S Corporation

- ⚓ Items to notice on forms:
- ◆ Compensation of corporate officers.
 - ◆ Salary and wages of employees.
 - ◆ Looks to see if there are comingling of corporate and personal expenses.
 - Look for paper expenses, inflated or non-essential, and add back to the income.





Form 1065

Partnership Tax Returns

U.S. Tax Return of Partnership Income

- ⚓ Used by partnerships to report total income.
- ⚓ Informational form as partnership entity does not pay taxes directly.
- ⚓ Profits and Losses passed to the individual partners, are reported on the individual tax return and taxed on the individual level.



Partner's Share of Income, Deduction, Credits, etc.

- ⚓ Form used by pass-through entities such as partnerships and S Corporations to report income, losses and gains allocated to each partner or shareholder.
- ⚓ It details each party's share of the entity's income, deductions, and other tax items, allowing them to report the information on their personal tax return.
- ⚓ This ensures that taxes are assessed at the individual level and not at the partnership/corporate level.





Schedule K-1



Partner's Share of Income, Deduction, Credits, etc.

Forms and Documents Associated with Schedule K-1

- ⚓ When reviewing a K-1, you should also have the following documents handy:
 - ◆ Individual Tax Return
 - ◆ The entities tax return (1065 for partnership and 1020S for S Corp)
- ⚓ Documents you may want to request:
 - ◆ Partnership Agreement
 - ◆ Bank Statements for the business/partnership





Schedule K-1



Partner's Share of Income, Deduction, Credits, etc.

Cash Reserves and Distribution

- ⚓ Cash Reserves and Distributions associated with a partnership:
 - ◆ A partnership may have cash reserves are not distributed to the partners.
 - ◆ If partners receive cash distributions, those distributions may not reflect as income on a party's personal income tax return, BUT it will show up on line 19 of the Schedule K-1
- ⚓ Consider whether cash reserves, or other holdings not distributed to the partner, should be deemed as income.
 - ◆ Need to see if type of business needs reserves.
- ⚓ Find out who controls distributions, bonuses, loans, or other compensation.





Schedule K-1



Partner's Share of Income, Deduction, Credits, etc.

Cash Reserves and Distribution

⚓ *In re Marriage of Berger (2009) 170 Cal.App.4th 1070*

- ◆ Parent cannot unilaterally, and voluntarily, arrange their business affairs in such a way as to effectively preclude their children from sharing in the benefits of his current standard of living.

⚓ *In re Marriage of Sorge (2012) 202 Cal.App.4th 626*

- ◆ Where the supporting party has chosen to invest his or her funds in non-income-producing assets, the trial court considering child support has discretion to impute income to those assets based on an assumed reasonable rate of return.
- ◆ Parent may not invest in businesses and thereby minimize their support obligation while they maintain a wealthy lifestyle.



Business Tax Return Scenario



Handouts #8 & #9

⚓ Facts:

- ◆ PPS Lion Woods owns a restaurant- Lion Hospitality Inc.
- ◆ DBA Tee Box Tavern located in Pebble Beach
- ◆ Lion Hospitality is an S-Corporation

⚓ Forms:

- ◆ Form 1140
- ◆ Schedule 1
- ◆ Schedule E
- ◆ Schedule K-1
- ◆ Form 1120 S



Business Tax Return Scenario

⚓ Form 1120-S

◆ What to look for?

- Total Income/Loss
- Compensation of Officers
- Distributions

⚓ Schedule K

◆ What to look for?

- Number of Partners/Shareholders and percentage
- Distributions



Business Tax Return Scenario

- ⚓ What is income?
- ⚓ Earned Income = \$91,020.00 yearly
- ⚓ Tax-free Income = \$146,104.00 yearly





Schedule F

Profit and Loss From Farming

- ⚓ Use same analysis as a Schedule C Business.
- ⚓ Always add back depreciation for land. Remember court may not allow LCSA to add-back depreciation for machinery and tools.

See **Handout #10**





Breaktime



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The BIG Scenario



Handout #11

⚓ Facts:

- ◆ Doris Knight provided the LCSA with 117-page income tax return listing various sources of income.
- ◆ On page 2 of her 1040 Individual Tax Return, she lists her occupation as artist and farmer.





The BIG Scenario



Handout #11

1040 Individual Tax Return Review

- ⚓ Taxable income listed as \$107,086
 - ◆ \$2,609 taxable interest
 - ◆ \$42,445 ordinary dividends (non-qualified)
 - ◆ \$31,567 qualified dividends
 - ◆ \$59,304 capital gain
 - ◆ \$273 Qualified Business income deduction

- ⚓ Doris itemizes deductions.





The BIG Scenario



Handout #11

Schedule 1 Additional Income and Adjustments to Income

- ⚓ Schedule shows \$34,128 in additional income, which was reflected on line 8 of the 1040 form.
 - ◆ Is the amount true or should it be adjusted?
- ⚓ Line 3 shows a business income loss of \$4,300 (Schedule C)
- ⚓ Line 5 shows rental real estate, royalties, partnership, S Corp, Trust of \$67,712 (Schedule E)
- ⚓ Line 6 shows farming income loss of \$29,284 (Schedule F)





The BIG Scenario



Handout #11

Schedules 2 & 3

- ⚓ These Schedules do not concern the LCSA as they have no effect on the calculation of income or the guideline calculator.





The BIG Scenario



Handout #11

Schedule A Itemized Deductions

- ⚓ \$10,000 taxes paid
- ⚓ \$9,748 mortgage interest
- ⚓ \$3,629 charitable contributions





The BIG Scenario



Handout #11

Schedule B-Interest and Ordinary Dividends

- ⚓ Part I-\$2,609 (line 4)
- ⚓ Part II-\$42,445 in Ordinary (non-qualified) dividends
 - ◆ Is this correct amount?
 - ◆ Should \$59,784 be used or should \$42,445 be used as ordinary dividend and \$17,339 would be tax-free income?
- ⚓ But wait, is there more?
 - ◆ Notice on 1040 form that Doris listed Qualified Dividends as \$31,567.
 - ◆ This amount needs to be put in the calculator.





The BIG Scenario



Handout #11

Schedule C-Profit or Loss From Business

- ⚓ Doris lists herself as an artist.
- ⚓ Is this really a business or a hobby?
- ⚓ What can we add back into the loss of \$4,300? Or can we reduce the expenses of \$8,800?
- ⚓ Are expenses reasonable and necessary?





The BIG Scenario



Handout #11

Schedule D – Capital Gains and Losses

- ⚓ Part 1- Short Term Capital Gains
 - ◆ Actual gain is \$6,651 (line 1b)
 - ◆ Net amount of gain listed as \$2,279 (line 7)
 - ◆ Argue \$6,651 should be used, not \$2,279, because the reality is that Doris received/gained \$6,651 and the carried over losses are just paper losses for tax purposes.





The BIG Scenario



Handout #11

Schedule D – Capital Gains and Losses

⚓ Part II-Long Term Capital Gains

- ◆ Actual gain is \$75,552
- ◆ Net amount of gain listed is \$57,025
- ◆ Argue \$75,552 should be used rather than the \$57,025 because the carry over loss of \$18,527 is a paper loss that is used for tax purposes. Reality is that Doris received \$75,552.

⚓ Remember 1040 form showed capital gains (short and long term) as \$59,304; however, we are requesting \$82,203.





The BIG Scenario



Handout #11

Schedule E – Supplemental Income and Loss

- ⚓ Part I – Income or Loss From Rental Real Estate and Royalties
- ⚓ Remember that Schedule 1 (Additional Income) showed income of \$67,712 in rental real estate, royalties, S Corp, trusts, etc.
- ⚓ Schedule E, Part I, shows this amount as royalties (item 1b) on line 26.
- ⚓ Total royalties received were actually \$152,916 (line 23b).
- ⚓ Depreciation was listed as \$22,937, and other expense as \$85,204. These amounts were subtracted from the \$152,916 to get the \$67,712.





Handout #11

Schedule E – Supplemental Income and Loss

⚓ Part I - Continued

- ◆ But can anything be added back in?
 - Depreciation of \$22,937 should be added in.
 - The \$85,204 may be added back in depending on the type of expenses. Review the Statements.
- ◆ At a minimum, the royalty income should be \$90,649 with added in depreciation.





The BIG Scenario



Handout #11

Schedule E - Supplemental Income and Loss

- ⚓ Part II- Income or Loss From Partnership and S Corporation:
 - ◆ Doris listed 2 partnerships both as Knight Family Ranch LLC, and it showed \$0.00 income and \$0.00 loss.
 - ◆ Look at Schedule K-1 for more information





Handout #11

Schedule F – Profit of Loss Farming

- ⚓ Type of Farm-grazing lots
- ⚓ Gross Income \$8,400
- ⚓ Total Expenses of \$37,684
- ⚓ Net Loss of **\$29,284** (Schedule 1, line 6)





The BIG Scenario



Handout #11

Schedule F- Profit or Loss of Farming

⚓ Add Back Approach

- ◆ Car/truck expense - reasonable/necessary at \$960 (allow)
- ◆ Depreciation expense -\$19,110 (don't allow-add back)
 - Need to review what the deprecation is based on: land or machinery?
 - Let them prove if they haven't provided proper documentation.
- ◆ Insurance-reasonable/necessary at \$2,057 (allow)
- ◆ Other-reasonable/necessary at \$1,118
- ◆ Repairs and maintenance - allow ½ and let them prove amount is reasonable
- ◆ Taxes at \$5,145 and professional fees at \$525 - reasonable



The BIG Scenario



Tax Returns Provided

- ⚓ \$2,609 taxable interest
- ⚓ \$42,445 Ordinary Dividends
- ⚓ \$59,304 Capital Gains
- ⚓ **\$4,300** Business Income Loss
- ⚓ \$67,712 Royalites
- ⚓ **\$29,284** Farming Income Loss
- ⚓ Taxable income reported on 1040 = \$107,086

After Analyzing Tax Returns

- ⚓ \$2,609
- ⚓ \$59,784 + \$31,567 qualified
- ⚓ \$82,203
- ⚓ \$0.00
- ⚓ \$152,916
- ⚓ \$0.00
- ⚓ Total Income = \$266,812 to \$329,079





Thank You!

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