

## Joe Average American Tax Return Assignment II<sup>1</sup>

### Part I

Joe and Gerry work in the basement of the Condo every Saturday morning producing small ceramic figurines. They usually make figurines for several weekends and then go to the Oak Park Mall and sell these figurines for, on average, \$15. They were able to sell 300 of these figurines this year. In the past their item sales has been as low as 100 and as high as 200. They have collected information about the expenses and income of producing figurines for this year and have provided them below.

Supplies for ceramic material	\$2,000
Utilities	\$250 (allocated on total utilities for the Condo based on square feet)
Paint	\$300
Brushes and Sandpaper	\$500
Glaze	\$300
Interest	\$1,000 (allocated using square feet and total mortgage interest paid on the Condo)
Property Taxes	\$750 (allocated using square feet and total property taxes paid on the Condo)

The figurines must be dried before painting and in order to shorten the process dramatically shortened they purchased a special kiln for \$3,500. They expect to write-off the kiln using §179.

#### Required:

Assume there is some question about the activity actually being engaged in for profit. Using the information from [Tax Return I](#) compute their new tax liability for the year assuming that the activity is not for profit but just a past time for the Americans.

### Part II

Joe and Gerry had a rather traumatic year. They suffered several casualties to property they own and during the year had their Condo burglarized. They have provided you the following information concerning the casualties and the burglary.

#### Storm Damage to Condo

Roof Damage	\$15,000
Window Damage	\$13,500

The amounts listed above represent the cost to restore the Condo to its original shape; the insurance company paid only 60% of those costs.

#### Car Accident-Dan Ryan Expressway

The automobile cost \$25,000 originally and had a market value of \$20,000 when it was completely destroyed. Luckily the airbags deployed and no one was seriously hurt, although they were shaken up quite badly. The insurance company paid the Americans 80% of the value of the car.

#### Burglary

Personal items taken during the burglary that occurred July 4 while they were out watching fireworks along Lake Michigan

TV	Original Cost \$1,500	FMV \$1,250
Stereo	Original cost \$3,000	FMV \$2,800
Jewelry Box (and Jewelry)	Original Cost \$14,000	FMV \$15,000

The insurance company covered 90% of the FMV of the items lost.

#### Required:

Assume that [Part II](#) is independent of [Part I](#) and determine the American's new tax liability based on the information contained in [Part II](#). You should again use the information from [Tax Return I](#).

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<sup>1</sup> For this assignment you may use the tax return information from [Tax Return I](#) to complete the assignment. There is a new spreadsheet available that includes a Schedule A.