**ASSIGNMENT 2:** FEDERAL INCOME TAX

(Sum 2024)

INCOME TAX ANALYSIS

1. Prepare a 2023 tax return for The Cantu using the financial data in the original case. Use the 1040, Schedule A, Schedule B, Schedule D, and other necessary forms. **Download these forms from** [**www.irs.gov**](http://www.irs.gov).
2. You may also want to reference Publication 17 (available on the IRS website).

\*\*FYI: In past semesters, there have been some problems with students uploading blank forms for this assignment. Please make sure your forms contain your answers before submitting. This is especially true when using Mac computers. If you submit blank forms, your assignment will not be graded. (Also, this is to be done ‘by hand’, not using tax preparation software).

**NOTES:**

* To calculate wages, include their salary minus any deduction from payroll like the 401(k) and insurance.
* Assume all capital gains distributions are long-term gains (not “28% rate” gains).
* Calculate the mortgage interest paid on their home in 2023 with an amortization schedule and include the file with your project.
* Calculate the student loan interest paid in 2023 with an amortization schedule and include the file with your project.
* You do not have to worry about calculating AMT or any credits.
* Abel has not started contributing to his 401(k) plan or IRA yet, so do not use this in calculating the 2023 tax liability.
* Abel and Cynthia will be filing a married filing jointly return.
* In addition to the charitable donations listed in their expenses, Abel and Cynthia also donated some old furniture to the Salvation Army. It was worth $725 and received a receipt for this donation.
* For schedule A: line 5  irs.gov site  “Sales tax deduction calculator”

<https://www.irs.gov/credits-deductions/individuals/sales-tax-deduction-calculator>

* See the instructions to calculate the taxes owed. (Do not use the 2022 Tax tables to find the amount of taxes owed (line 16)). The tax rate schedule can be used to find the marginal tax rate.
* Remember, contributions to a 401(k) and 403(b) reduce salary before it’s entered on the 1040 form.
* Complete only the fields where information is available. Leave other fields blank! Round to the nearest dollar.
1. What is Abel and Cynthia’s average tax rate? What is their marginal tax rate?
2. Approximately how much would Abel and Cynthia have saved in taxes for 2023 if they had invested $6,000 in his IRA account? How much would he have saved in taxes for 2022 if he had invested 6% in his 401(k)? How much would they have saved in taxes for 2022 if they saved $2,000 in a Roth IRA? Do you recommend a 401(k)/403(b), a traditional IRA, or a Roth IRA? Why?
3. Given the Cantu’s financial status, goals, and risk tolerance, what tax strategies would you recommend reducing their tax liability in the future? Do they have enough money to implement the recommended tax strategies?

5. a. Does the Cantu family qualify for the child tax credit, and support your answer?

b. Can the Cantu family deduct the student loan interest? (Why or why not)

b. Can Cantu deduct their home mortgage interest? Does owning a home provide any tax advantages? (If yes, how much did they save on taxes, and if not, why not)

6. The Cantu have dividends. What are the requirements for “Qualified Dividends”? Did these dividends meet those requirements? IF so, how does this effect the taxability of these dividends? (You did not get a tax form from your broker indicating if the dividends were qualified or not, so advise Abel whether they are or not and what difference that makes)?