

EVALUATING TAX RETURNS

MISSISSIPPI BANKRUPTCY
CONFERENCE

ANNUAL SEMINAR

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Chapter 13 Trustee – Southern District of Mississippi

Duties of A Chapter 13 Trustee

- ▶ Be accountable for all property received during the Chapter 13 bankruptcy case;
- ▶ Investigate the financial affairs of the debtor;
- ▶ Oppose the discharge of the debtor when necessary;
- ▶ If the debtor is engaged in business:
 - ▶ investigate the acts, conduct, assets, liabilities, and financial condition of the debtor, the operation of the debtor's business and the desirability of the continuance of such business, and any other matter relevant to the case or to the formulation of a plan; and
 - ▶ once the investigation is completed, file a statement of the investigation.



**It's easy to overlook assets
in plain view.**

Purpose of Examination of Returns

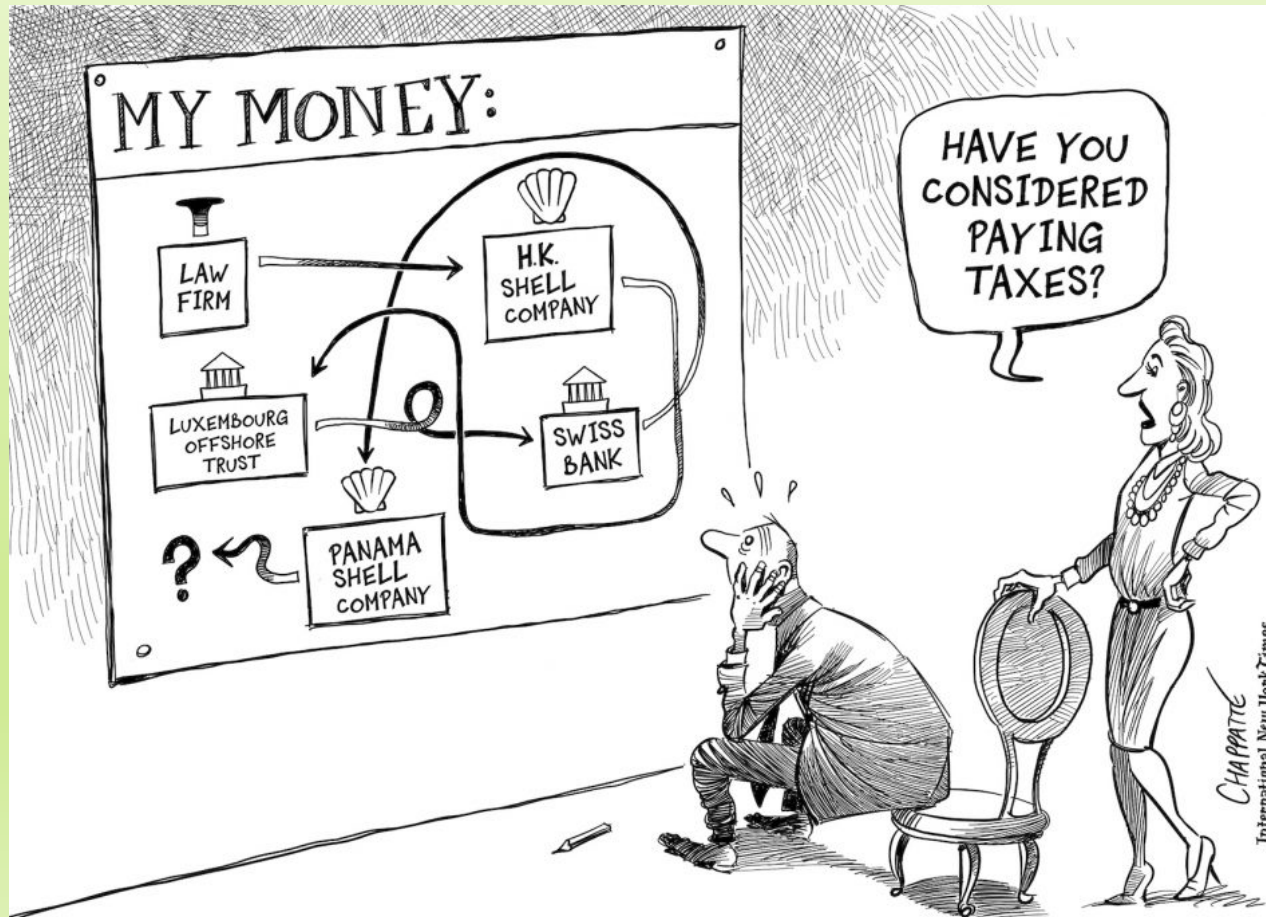
Undisclosed
Assets

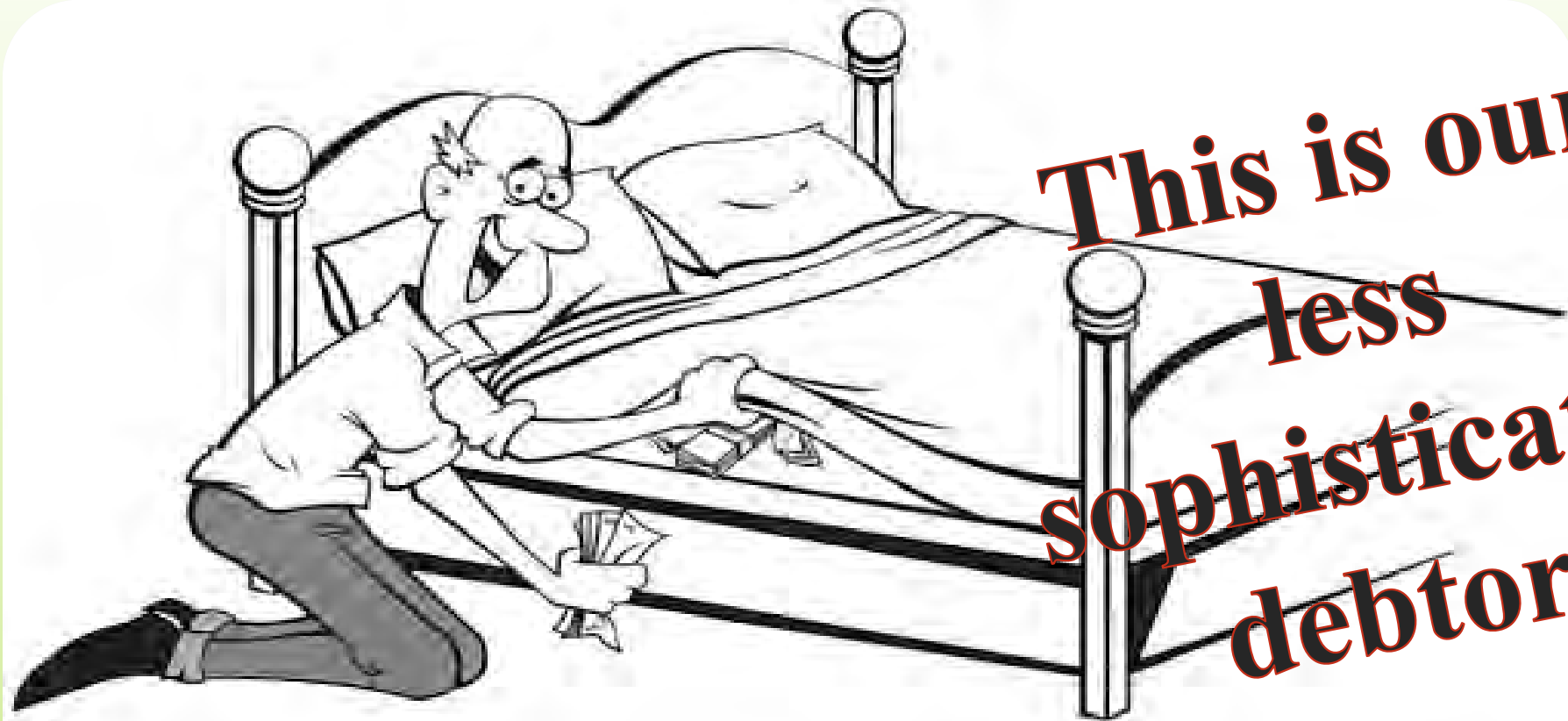
Undisclosed
Liabilities

Undisclosed
Income

Undisclosed
Expenses

- Our Debtors probably aren't this sophisticated.





**This is our
less
sophisticated
debtor.**

"Honey, I'm making a deposit into our retirement savings."

"Honey, I'm making a deposit into our retirement savings."

Section 521

Debtor's Duties

- ▶ (a) The debtor shall
 - ▶ (1) file-
 - ▶ (A) a list of creditors; and
 - ▶ (B) unless the court orders otherwise-
 - ▶ (i) a schedule of assets and liabilities;
 - ▶ (ii) a schedule of current income and current expenditures;

Can I spend my tax refund on prepaid VISA gift cards to hide the money from the bankruptcy trustee?



Rule 4002. Duties of Debtor

► (b) INDIVIDUAL DEBTOR'S DUTY TO PROVIDE DOCUMENTATION.

- (3) Tax Return. At least 7 days before the first date set for the meeting of creditors under section 341, the debtor shall provide to the trustee a copy of the debtor's federal income tax return for the most recent tax year ending immediately before the commencement of the case and for which a return, or provide a written statement that the documentation does not exist.
- (4) Tax Returns Provided to Creditors. If a creditor, at least 14 days before the first date set for the meeting of creditors under section 341, requests a copy of the debtor's tax return that is to be provided to the trustee under subdivision (b)(3), the debtor, at least 7 days before the first date set for the meeting of creditors under section 341, shall provide to the requesting creditor a copy of the return, including any attachments, or a transcript of the tax return, or provide a written statement that the documentation does not exist.

Section 1325 Confirmation of Plan

- ▶ (a) Except as provided in subsection (b), the court shall confirm a plan if
 - (9) the debtor has filed all applicable Federal, State, and local tax returns as required by section 1308.

Section 1308

Filing of Prepetition Tax Returns

- ▶ (a) Not later than the day before the date on which the meeting of the creditors is first scheduled to be held under section 341(a), if the debtor was required to file a tax return under applicable non-bankruptcy law, the debtor shall file with appropriate tax authorities all tax returns for all taxable periods ending during the 4-year period ending on the date of the filing of the petition.

Tax Returns: A Goldmine of Information (If you can understand them!)



TAX REFUNDS – PAST, PRESENT AND FUTURE



MISSISSIPPI EXEMPT PROPERTY

- ▶ **§ 85-3-1. Property exempt from seizure under execution or attachment.**
- ▶ There shall be exempt from seizure under execution or attachment: . . .
- ▶ (i) An amount not to exceed Five Thousand Dollars (\$5,000.00) of earned income tax credit proceeds.
- ▶ (j) An amount not to exceed Five Thousand Dollars (\$5,000.00) of federal tax refund proceeds.
- ▶ (k) An amount not to exceed Five Thousand Dollars (\$5,000.00) of state tax refund proceeds.

In re: Diaz vs. Viegelahn, 19-50982, (5th Circuit August 26, 2020)

Court ruled bankruptcy court's local provision requiring debtors to hand over tax refund amounts in excess of \$2000 as invalid because it breached below-median income debtors' substantive rights. Further Court found it violated Section 1325(b)(2), as construed by Hamilton v. Lanning, 560 U.S. 505 (2010). Local rules are intended to govern practice and procedure and should never alter a debtor's substantive rights.



Leaves open the question “is there a difference in the treatment of tax refunds in the initial year for above median income debtors?”

Above or Below Median Income

Check as directed in lines 17 and 21:

According to the calculations required by this Statement:

- ☐ 1. Disposable income is not determined under 11 U.S.C. § 1325(b)(3).
 - ☐ 2. Disposable income is determined under 11 U.S.C. § 1325(b)(3).
-
- ☐ 3. The commitment period is 3 years.
 - ☐ 4. The commitment period is 5 years.

CARES ACT & TAXES

- ▶ All payments made to individuals under the CARES Act are not considered in determining a debtor's disposable income for a Chapter 13 plan of reorganization. The exclusion of CARES Act payments provide debtors with additional funds after filing.

Sources: Personal Income Tax Returns

Obtain the parties' personal income tax returns to identify the sources of income:

1. Wages, salaries, tips, etc.. (Form W-2)
2. Investment income (Schedule B)
3. Business Income (Schedule C)
4. Capital Gains or Losses (Schedule D)
5. Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Schedule E)
6. Farm Income or loss (Schedule F)
7. Retirement plan distributions

Identify the Sources

- **Schedule K-1s:** Identifies the distributions (i.e. cash flow).
- **Personal financial statements:** provides a schedule of income producing assets.
- **Loan applications:** provides sources of income and assets.
- **Bank and brokerage accounts:** identify unknown deposits or transfers.
- **Public information:** Secretary of State filings, real estate and business records, etc.

Overview of Financial Analysis

- ▶ Financial Analysis is really a “forensic” exercise in which you follow the money to ensure unsecured creditors distributions are maximized.
- ▶ Financial Analysis provides an understanding of how debtor(s)’ funds were obtained to purchase assets, the location or existence of assets and/or asset changes within the time period immediately preceding the filing.
- ▶ Financial Analysis provides any understanding of how debtor(s)’ ongoing monthly obligation will be met and an insight into the causes for the filing.

Major Documents for Analysis

- ▶ Schedule A/B: Property (Official Form 106A/B)
- ▶ Schedules I & J (Income and Expenses)
 - ▶ Consistent with other documents? (Tax Returns)
- ▶ 122C-1 – Above or below median income determination
 - ▶ Prior 6 months history of income stream
- ▶ SOFA – Statement of Financial Affairs (Official Form 107)
 - ▶ Question 1 – Marital Status – Potential undisclosed income
 - ▶ Questions 4 & 5 – Sources of Income for past 2 year

Purpose of Analysis

1. Determine Estate vs. Non-estate property (Exempt – Schedule C)
2. Evaluate whether all income is disclosed
3. Assess possible unreported income
4. Identify possible hidden assets or undisclosed spending
5. Analyze what happened to inflows over time
6. Fraud and criminal issues



Examples of Documents

Business &
Personal Income
Tax Returns

W-2s and K-
1s, if
applicable

Mortgage
Statements

Bank
Statements

Deposit Slips

Personal
Financials

Retirement
Account
Statements

Cancelled
Checks

Credit Cards
Statements

Gift Tax
Returns

Business
Documents

Loan
Applications

Loan
Statements

Contents of
Safety Deposit
Boxes

Public
Filings,
Secretary of
State

Cash
Disbursement
Journals



FIRST BANK OF WIKI
1425 JAMES ST. PO BOX 4000
VICTORIA BC V8X 3X4 1-800-555-5555

CHEQUING ACCOUNT STATEMENT
Page: 1 of 1

JOHN JONES
1643 DUNDAS ST W APT 27
TORONTO ON M6K 1V2

Statement period	Account No.
2003-10-09 to 2003-11-08	00005- 123-456-7

Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL			694.81	695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL			694.81	731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
*** Totals ***			1,515.63	1,442.61	

Section 341 Meeting Exam

- Interview the Debtor at the 341 hearing
- Build a profile of the parties assets, liabilities, income, and expenses over the period being analyzed.
- Gain an understanding of the information/documentation that is available.
- Compare the information obtained in the interview to the underlying data in the financial analysis.

Sources and Uses Analysis

Where did the money **come from** and where did it go?

Sources

- * Compensation
- * Loan proceeds
- * Business or investment distributions
- * Gifts

Uses

- * General Living expenses
- * Asset purchases
- * Tax payments
- * Gifts

Identify The Uses

- **Personal income tax returns:** list tax payments and itemized deductions, including real estate tax, mortgage interest and charitable contributions (Schedule A).
- **Credit card statements:** details monthly expenses which can be used to illustrate the debtor(s) lifestyle.
- **Bank account statements:** typically provides a description of electronic withdrawals or transfers including the receiving party and last four digits of account numbers.
- **Cancelled check records:** identifies where funds were disposed.
- **Loan settlement sheets:** details the outflows to payoff a loan.

Identify the uses

- **Real Estate closing statements:** details the outflows to purchase a property and the origination of the funds.
- **Public real estate records (deeds and tax payments):** could identify hidden property
- **Schedule K-1s:** lists contributions to businesses or investments.
- **Gift tax returns:** identifies gifts to family or friends.
- **Build a lifestyle analysis:** depending on the case, it might be necessary to build a lifestyle analysis.

Analyze the Data

The financial profile built for the subject through the 341 meeting and sources and uses analysis should be used as the starting point to analyze the data.

Reconcile the sources to the deposits in the bank accounts.

- Are there accounts that were not previously identified?
- Are there other sources of income that were not reported?
- Track any inconsistencies.

Analyze the data

Reconcile the uses to the withdrawals from the bank accounts.

1. Are there accounts that were not previously identified?
2. Are there any significant unidentified outflows?
3. Are there transfers to unknown accounts?
4. Track inconsistencies.

Analyze the Data

Trace the assets forward from the “event”:

1. Was the asset disposed?
2. How did the asset change over the period analyzed?
3. Where is the asset commingled?

Trace the money backwards from the asset (i.e. bank accounts, property, etc.)

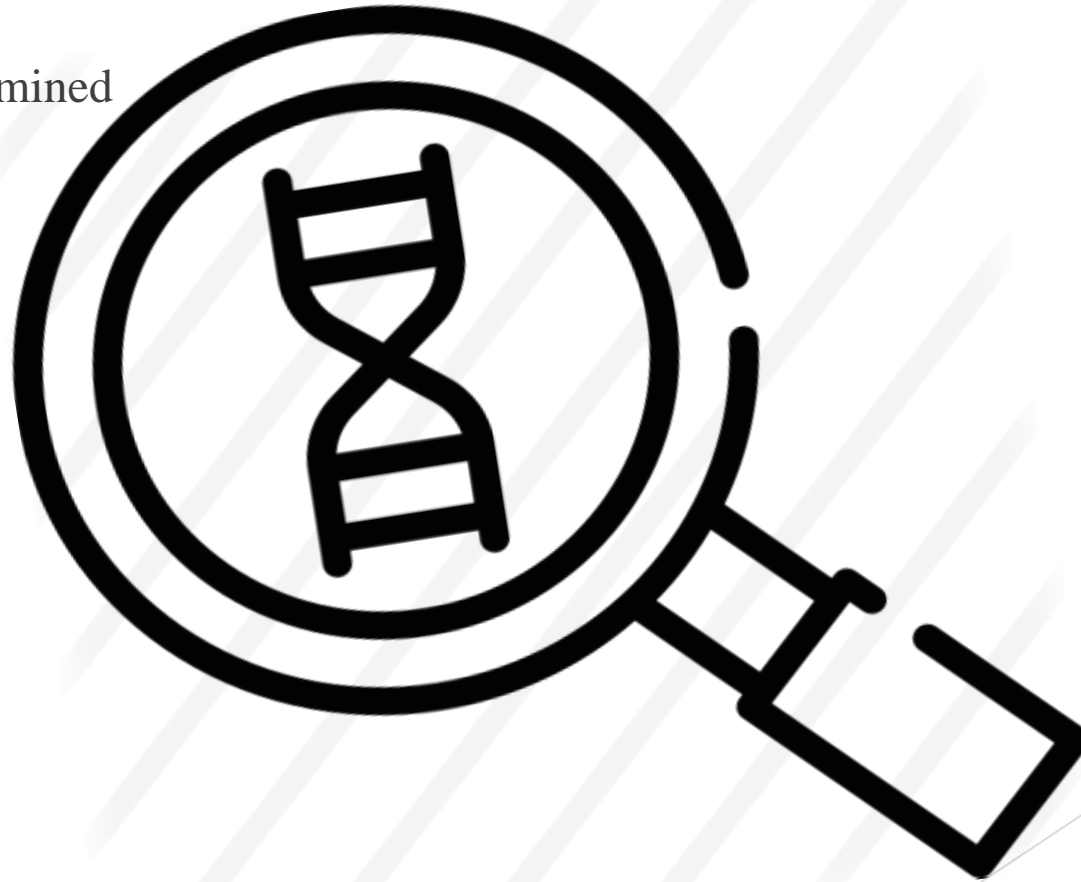
1. Where did the funds originate?
2. What was the source of those funds?

Red Flags

- Transfers to or from unknown accounts.
- Large unknown deposits or withdraws to or from an unknown source.
- Large assets sales – trace the disposition of the funds.
- Transactions with related parties (family, friends, businesses).
- Reconcile all sources of data – investigate sources that are inconsistent.
- Prepare a follow-up document request to resolve any red flags.

Forensic Tax Example

- ▶ Undisclosed Liabilities Determined
- ▶ Unknown Assets Located



1040

Department of the Treasury—Internal Revenue Service

(99)

2017

OMB No. 1545-0074

IRS Use Only—Do not write or staple in this space.

U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning _____, ending _____

See separate instructions.

Your social security number _____

Spouse's social security number _____

Make sure the SSN(s) above and on line 5c are correct.

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

1 ☐ Single

2 ☒ Married filing jointly (even if only one had income)

3 ☐ Married filing separately. Enter spouse's SSN above and full name here: _____

4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here: _____

5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☒ Yourself. If someone can claim you as a dependent, do not check box 6a

b ☒ Spouse

c Dependents:

(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) ☒ If child under age 17 qualifying for child tax credit (see instructions)

If more than four dependents, see instructions and check here ☐

d Total number of exemptions claimed 5

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 113,985

8a Taxable interest. Attach Schedule B if required

b Tax-exempt interest. Do not include on line 8a

9a Ordinary dividends. Attach Schedule B if required

b Qualified dividends 355

10 Taxable refunds, credits, or offsets of state and local income taxes

11 Alimony received

12 Business income or (loss). Attach Schedule C or C-EZ

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐

14 Other gains or (losses). Attach Form 4797

15a IRA distributions 15a b Taxable amount 4,000

16a Pensions and annuities 16a b Taxable amount -6,041

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E

18 Farm income or (loss). Attach Schedule F

19 Unemployment compensation

20a Social security benefits 20a b Taxable amount 8,038

21 Other income. List type and amount 1099-C

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 120,257

Adjusted Gross Income

23 Educator expenses

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ

25 Health savings account deduction. Attach Form 8889

26 Moving expenses. Attach Form 3903

27 Deductible part of self-employment tax. Attach Schedule SE

28 Self-employed SEP, SIMPLE, and qualified plans

29 Self-employed health insurance deduction

30 Penalty on early withdrawal of savings

31a Alimony paid b Recipient's SSN

32 IRA deduction

33 Student loan interest deduction

34 Reserved for future use

35 Domestic production activities deduction. Attach Form 8803

36 Add lines 23 through 35

37 Subtract line 36 from line 22. This is your adjusted gross income 120,257

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Form 1040 (2017)

SCHEDULE E
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)
Name(s) shown on return

Supplemental Income and Loss

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041.

▶ Go to www.irs.gov/ScheduleE for instructions and the latest information.

OMB No. 1545-0074

2017

Attachment
Sequence No. **13**

Your social security number

Part I **Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C or C-EZ (see instructions). If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

A Did you make any payments in 2017 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☒ No

B If "Yes," did you or will you file required Forms 1099? ☐ Yes ☒ No

1a Physical address of each property (street, city, state, ZIP code)

A

B

C

1b Type of Property
(from list below)

A

B

C

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.

Fair Rental
Days

Personal Use
Days

QJV

A

B

C

45

Type of Property:

1 Single Family Residence

3 Vacation/Short-Term Rental

5 Land

7 Self-Rental

2 Multi-Family Residence

4 Commercial

6 Royalties

8 Other (describe)

Income:

Properties:

A

B

C

3 Rents received

3

800

4 Royalties received

4

Expenses:

5 Advertising

5

50

6 Auto and travel (see instructions)

6

7 Cleaning and maintenance

7

8 Commissions

8

9 Insurance

9

846

10 Legal and other professional fees

10

250

11 Management fees

11

12 Mortgage interest paid to banks, etc. (see instructions)

12

2,787

13 Other interest

13

14 Repairs

14

1,200

15 Supplies

15

16 Taxes

16

1,358

17 Utilities

17

350

18 Depreciation expense or depletion

18

19 Other (list) ▶

19

20 Total expenses. Add lines 5 through 19

20

6,841

21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198

21

-6,041

22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)

22

(6,041)

23a Total of all amounts reported on line 3 for all rental properties

23a

800

23b Total of all amounts reported on line 4 for all royalty properties

23b

23c Total of all amounts reported on line 12 for all properties

23c

2,787

23d Total of all amounts reported on line 18 for all properties

23d

23e Total of all amounts reported on line 20 for all properties

23e

6,841

24 Income. Add positive amounts shown on line 21. Do not include any losses.

24

25 Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here.

25

(6,041)

26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here.

26

If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line

17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2

Form **1040** (2018) U.S. Individual Income Tax Return

Filing status: ☐ Single ☒ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial: [redacted] Last name: [redacted] Your social security number: [redacted]

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial: [redacted] Last name: [redacted] Spouse's social security number: [redacted]

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☒ Full-year health care coverage or exempt (see inst.)

☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions: [redacted] Apt. no.: [redacted] Presidential Election Campaign (see inst.): ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule B: [redacted] If more than four dependents, see inst. and check here: ☐

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> Child tax credit	(5) <input checked="" type="checkbox"/> Credit for other dependents
[redacted]	[redacted]	[redacted]	[redacted]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
[redacted]	[redacted]	[redacted]	[redacted]	<input type="checkbox"/>	<input type="checkbox"/>
[redacted]	[redacted]	[redacted]	[redacted]	<input type="checkbox"/>	<input type="checkbox"/>
[redacted]	[redacted]	[redacted]	[redacted]	<input type="checkbox"/>	<input type="checkbox"/>

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? ☒ See instructions. Keep a copy for your records.

Preparer's name: [redacted] Preparer's signature: [redacted] Date: [redacted] Your occupation: [redacted]

Spouse's signature. If a joint return, both must sign: [redacted] Date: [redacted] Spouse's occupation: [redacted]

Preparer's name: [redacted] Preparer's signature: [redacted] PTIN: [redacted] Firm's EIN: [redacted]

Firm's name: **Self-Prepared** Phone no.: [redacted]

Firm's address: [redacted]

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Form 1040 (2018) Page 2

1 Wages, salaries, tips, etc. Attach Form(s) W-2: 99,885.

2a Tax-exempt interest: 2b Taxable interest: 0.

3a Qualified dividends: 3b Ordinary dividends: 0.

4a IRAs, pensions, and annuities: 4b Taxable amount: 2,476.

5a Social security benefits: 5b Taxable amount: 15,795.

6 Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22: 115,156.

7 Adjusted gross income. If you have no adjustments to income, enter the amount from line 6. Otherwise, subtract Schedule 1, line 36, from line 6: 115,156.

8 Standard deduction or itemized deductions (from Schedule A): 24,000.

9 Qualified business income deduction (see instructions): 0.

10 Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-: 0.

11 a Tax (see inst.): 0. (check if any from: 1 Form 9814 2 Form 4972 3) b Add any amount from Schedule 2 and check here: 0.

12 a Child tax credit/credit for other dependents: 0. b Add any amount from Schedule 3 and check here: 0.

13 Subtract line 12 from line 11. If zero or less, enter -0-: 0.

14 Other taxes. Attach Schedule 4: 0.

15 Total tax. Add lines 13 and 14: 0.

16 Federal income tax withheld from Forms W-2 and 1099: 2,572.

17 Refundable credits: a EIC (see inst.): 5,190. b Sch. E812: 1,400. c Form 8853: 2,000. Add any amount from Schedule 5: 8,590.

18 Add lines 16 and 17. These are your total payments: 11,162.

19 If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid: 11,162.

20a Amount of line 19 you want refunded to you. If Form 8879 is attached, check here: 11,162.

20b Routing number: [redacted] a Type: ☐ Checking ☒ Savings

20c Account number: [redacted]

21 Amount of line 19 you want applied to your 2019 estimated tax: 0.

22 Amount you owe. Subtract line 19 from line 15. For details on how to pay, see instructions: 0.

23 Estimated tax penalty (see instructions): 0.

Go to www.irs.gov/Form1040 for instructions and the latest information.

BAA REV 10/18/18 Form 1040 (2018)

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.

▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2018
Attachment
Sequence No. 01

Name(s) shown on Form 1040

Your social security number

Additional Income	1-9b	Reserved		1-9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes		10	
	11	Alimony received		11	
	12	Business income or (loss). Attach Schedule C or C-EZ		12	-86,902.
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		13	
	14	Other gains or (losses). Attach Form 4797		14	
	15a	Reserved		15b	
	16a	Reserved		16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
	18	Farm income or (loss). Attach Schedule F		18	
	19	Unemployment compensation		19	
	20a	Reserved		20b	
	21	Other income. List type and amount ▶ Cancelled debt income 336.		21	336.
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23		22	-86,566.
Adjustments to Income	23	Educator expenses	23		
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24		
	25	Health savings account deduction. Attach Form 8889	25		
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26		
	27	Deductible part of self-employment tax. Attach Schedule SE	27		
	28	Self-employed SEP, SIMPLE, and qualified plans	28		
	29	Self-employed health insurance deduction	29		
	30	Penalty on early withdrawal of savings	30		
	31a	Alimony paid b Recipient's SSN ▶	31a		
	32	IRA deduction	32		
	33	Student loan interest deduction	33		
	34	Reserved	34		
	35	Reserved	35		
	36	Add lines 23 through 35	36		

For Paperwork Reduction Act Notice, see your tax return instructions.

Schedule 1 (Form 1040) 2018

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (93)

Profit or Loss From Business

(Sole Proprietorship)

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0047

2018

Attachment
Sequence No. 09

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions) CATERING		B Enter code from instructions 7 2 2 3 0 0	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify)			
G Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2018, check here <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			
I Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
J If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1
2 Returns and allowances	2
3 Subtract line 2 from line 1	3
4 Cost of goods sold (from line 42)	4
5 Gross profit. Subtract line 4 from line 3	5
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7 Gross income. Add lines 5 and 6	7

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions)	9	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	
11 Contract labor (see instructions)	11 19,704	a Vehicles, machinery, and equipment	20a
12 Depreciation	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21 37,655
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part II)	22 29,543
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest (see instructions):		24 Travel and meals:	
a Mortgage (paid to banks, etc.)	16a	a Travel	24a
b Other	16b	b Deductible meals (see instructions)	24b
17 Legal and professional services	17	25 Utilities	25
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28 86,902	26 Wages (less employment credits)	26
29 Tentative profit or (loss). Subtract line 28 from line 7	29 -86,902	27a Other expenses (from line 48)	27a
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: and (b) the part of your home used for business: Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	b Reserved for future use	27b
31 Net profit or (loss). Subtract line 30 from line 29. * If a profit, enter on both Schedule 1 (Form 1040), line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. * If a loss, you must go to line 32.	31 -86,902		
32 If you have a loss, check the box that describes your investment in this activity (see instructions). * If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. * If you checked 32b, you must attach Form 8198. Your loss may be limited.		32a <input checked="" type="checkbox"/> All investment is at risk.	
		32b <input type="checkbox"/> Some investment is not at risk.	

“You Won’t Believe This”

- ▶ Trustee: Have you filed all the tax returns you were required to file for the past four years?
- ▶ Debtor: Yes.
- ▶ Trustee: Have you given me a true and correct copy of the most recent ones?
- ▶ Debtor: Yes
- ▶ Trustee: Did you own any rental property in 2017?
- ▶ Debtor: Excuse me?
- ▶ Trustee: Did you own any rental property in 2017?
- ▶ Debtor: Did I own any rental property in 2017?
- ▶ Trustee: Or do you still own any?
- ▶ Debtor: I have a house that I own that I am renting out. Yes.
- ▶ ...

- ▶ Trustee: Alright. Well I saw Schedule E on your 2017 return. What type of catering business did you run?
- ▶ Debtor: Umm, trying to cook like at people when they get off from their jobs.
- ▶ Trustee: What kind of catering business did you run?
- ▶ Debtor: Umm, (pauses for several seconds)
- ▶ Trustee: It was your business, right?
- ▶ Debtor: Actually, it was me and some others but, (pauses for several seconds) Yes.
- ▶ Trustee: I'm still waiting on what kind.
- ▶ Debtor: You know how you just sale food, you cook and sale food to people you know or to people that's like at a job.
- ▶ Trustee: Okay, did they pay you?
- ▶ Debtor: Umm, it didn't do too well.
- ▶ Trustee: But did they pay you?
- ▶ Debtor: Umm (paused for several seconds)
- ▶ Trustee: You didn't just cook, give them food and receive no money.
- ▶ Debtor: Right.

- ▶ Trustee: So they paid you for the food, right?
- ▶ Debtor: Yeah, uh yes.
- ▶ Trustee: So who kept up with the books, you or them?
- ▶ Debtor: Them.
- ▶ Trustee: But you put it in your tax return.
- ▶ Debtor: Yes.
- ▶ Trustee: Okay. Are you all still in business?
- ▶ Debtor: No
- ▶ Trustee: Okay, who is them? Do they have a name?
- ▶ Debtor: Umm, no. I, I
- ▶ Trustee: You do realize, and maybe you need to speak with your attorney, that you must answer my questions?
- ▶ Debtor: Well yeah, we didn't discuss this before now.
- ▶ Trustee: I don't care about that.
- ▶ Debtor: I know you don't.
- ▶ Trustee: Right.

- ▶ Debtor: So, umm.
- ▶ Trustee: Do you want to end this meeting and continue with it later? Or do you want me to do a 2004 exam on him at a later date?
- ▶ Attorney: It's whatever, I mean, if you have business partners, we just need to know who they are.
- ▶ Trustee: Did you hear your attorney?
- ▶ Debtor: Well this is, let's umm, let's, let's, let's clarify something...umm.
- ▶ Trustee: This is interesting.
- ▶ Debtor: I think we might need to, umm, I might need to, can I talk to my attorney?
- ▶ Trustee: The problem you have is, I'm in the middle of a hearing.
- ▶ Debtor: I understand.

- ▶ Trustee: So, that's between you and him. He's sitting here, you can talk to him, and you all can decide right now as we sit here.
- ▶ Attorney: Debtor?
- ▶ Debtor: The thing is, I figured if there was a problem, we would have already discussed it, and I could have explained it better face to face, but umm.
- ▶ Trustee: He may not have known it was a problem until today
- ▶ Debtor: Right.
- ▶ Attorney: So Debtor, do you want to just try to hold the hearing on another day? Or do you want to answer the question?
- ▶ Debtor: Umm, I can answer the question, but what I'm saying is that I didn't know it was a problem.
- ▶ Attorney: I would advise you to answer the question (laugh)
- ▶ Debtor: Excuse me?
- ▶ Trustee: My advice is to just answer the question.

- ▶ Debtor: Okay, well to be honest with you, umm, I let somebody do my taxes because they said they could get me a big lump sum back. I wasn't sure exactly what they was gone do, and that's what I got back. So...



- ▶ Trustee: Actually, actually...
- ▶ Debtor: I don't know, I don't know, umm. I'm assuming if I was audited, then it would be an issue, so I didn't know that there was an issue today. I just listened to someone who had done something like that before, and that was the outcome.
- ▶ Trustee: Okay, right. Who was the person who did your taxes?
- ▶ Debtor: Umm, I'll have to get the name from someone else that I know.
- ▶ Trustee: They didn't sign your tax return, did they?
- ▶ Debtor: No, they put me down. I didn't know they were going to do that either, but they put me down as the umm.
- ▶ Trustee: Tax preparer?
- ▶ Debtor: Umm, as self-preparer.
- ▶ Trustee: Which is what I figured. You will need to get that person's name and get it to your attorney, so they can get it to us. You suing anyone?



"Somehow, I consolidated all my debts into a ten-year sentence!"

Take Away

- ▶ Debtor's Counsel – examine tax returns prior to giving to Trustee
 - * Business Loss
 - * Head of Household – not separated from spouse
 - * Non-filed returns
 - * Factory Preparers – I'll get you a large refund
 - * Schedule C – Failure to exempt refunds
- ▶ Trustee – examine tax returns for undisclosed items.
 - ▶ Undisclosed Assets – Schedule C, E
 - ▶ Undisclosed Income – Schedule B (Interest/Dividends)
 - ▶ Understated Liabilities – Taxes (Filing Status)



Michael Watson

SECRETARY OF STATE



- ▶ Business Name | Business ID | Officer Name | Registered Agent
- ▶ Search Criteria
- ▶ Starting With All Words Any Words Sounds Like Exact Match
- ▶ Business Name:

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