2025 AB 1058 Annual Child Support Conference Understanding Tax Return Issues September 18, 2025

hypothetical problems

Presentation by Judge Angela J. Davis and
Investigative Auditor Carlos R. Tropea

Hypothetical 1

Martha is self-employed as a tattoo artist and jewelry designer. Her social media postings indicate that she accepts Zelle, Venmo, and cash.

George, Martha's ex, on his FL-150, item # 4, estimates that Martha's monthly income is \$6,000 - \$7,000, and that his estimate is based on: "I've known her for over ten years and she is an award-winning jewelry designer and tattoo artist. I also know that she gives a discount to people who pay her in cash and, when we were together, she would constantly bring home cash payments of \$2,000 to \$3,000 per day, and would brag that she sometimes makes \$10,000 in a month and almost always makes \$6,000 per month. She bought a BMW last year."

Martha's schedule C is attached. What, if any questions do you have for Martha?

SCHEDULE C (Form 1040)

Profit or Loss From Business

(Sole Proprietorship)

Department of the Treasury Internal Revenue Service Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

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

OMB No. 1545-0074

2024

Attachment
Sequence No. 09

	of proprietor a Washinton					Social	securi	ty numb	er (S	SN)
A	Principal business or profession	n includin	a product or service (se	e instr	uctions)	R Ente	er code	from inst	ructio	ne
Jewel	ry Designer / Tatoo Artist	· 		e man	uctions	D Line	Loue			113
C Made	Business name. If no separate by Martha	business ı	name, leave blank.			D Emp	oloyer ID	number ((EIN) (:	see instr.)
E	Business address (including si	uite or roon	n no.) 12345 Homewoo	d Drive	e, Apartment 2					
	City, town or post office, state	e, and ZIP o	ode							
F		✓ Cash			Other (specify)					
G	Did you "materially participate	" in the op	eration of this business	during	2024? If "No," see instructions for li	mit on l	osses	. 🗹 Y	es/	☐ No
Н	If you started or acquired this	business d	uring 2024, check here							_
I					n(s) 1099? See instructions			_		∐ No
J		e required F	Form(s) 1099?					<u>. 🗆 Y</u>	es_	∐ No
Par	Income					_	Т			
1					this income was reported to you on	1				24,000
2	Returns and allowances					2	<u> </u>			
3						3				
4	Cost of goods sold (from line	42)				4	ـــــ			11,000
5	•									
6			•		refund (see instructions)					
7 Dord						7				13,000
Part			2500			10	Т			2500
8	Advertising	8	2500	18 19	Office expense (see instructions) .	18	+			2500
9	Car and truck expenses (see instructions)	9		20	Pension and profit-sharing plans . Rent or lease (see instructions):	19				
10	Commissions and fees .	10		a	Vehicles, machinery, and equipment	20a	1			
11	Contract labor (see instructions)	11		b	Other business property					
12	Depletion	12		21	Repairs and maintenance		_			
13	Depreciation and section 179			22	Supplies (not included in Part III) .					
	expense deduction (not			23	Taxes and licenses	23				
	included in Part III) (see instructions)	13		24	Travel and meals:					
14	Employee benefit programs			а	Travel	24a	1			
	(other than on line 19) .	14		b	Deductible meals (see instructions)	24b				
15	Insurance (other than health)	15		25	Utilities	25				
16	Interest (see instructions):			26	Wages (less employment credits)	26				
а	Mortgage (paid to banks, etc.)	16a		27a	Other expenses (from line 48)	27a				
b	Other	16b		b	Energy efficient commercial bldgs					
17	Legal and professional services	17	1000		deduction (attach Form 7205)					
28	· ·				8 through 27b					6000
29	Tentative profit or (loss). Subtr	ract line 28	from line 7			29	-			
30	Expenses for business use of unless using the simplified method filers only	thod. See	instructions.	•	nses elsewhere. Attach Form 8829					
	and (b) the part of your home	used for bu	ısiness:		. Use the Simplified					
	Method Worksheet in the instr	ructions to	figure the amount to en	er on	line 30	30				
31	Net profit or (loss). Subtract	line 30 fron	n line 29.		,					
	• If a profit, enter on both Sch checked the box on line 1, see	•	**			31				
	• If a loss, you must go to line	e 32.			J					
32	If you have a loss, check the b	oox that de	scribes your investment	in this	activity. See instructions.					
	• If you checked 32a, enter th SE, line 2. (If you checked the Form 1041, line 3. • If you checked 32b, you mu	box on line	1, see the line 31 instruc	tions.)	Estates and trusts, enter on	32a 32b	Sor	investme me inves isk.		

Schedu	le C (Form 1040) 2024			Page 2
Part	Cost of Goods Sold (see instructions)			
33	Method(s) used to value closing inventory: a ✓ Cost b ☐ Lower of cost or market c ☐ Other (att	ach ex	planation)	
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventor if "Yes," attach explanation	•	. Yes	☐ No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		5000
36	Purchases less cost of items withdrawn for personal use	36		5000
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		7500
39	Other costs	39		
40	Add lines 35 through 39	40		17,500
41	Inventory at end of year	41		6000
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		11000
Part	Information on Your Vehicle. Complete this part only if you are claiming car or are not required to file Form 4562 for this business. See the instructions for line Form 4562.			
43	When did you place your vehicle in service for business purposes? (month/day/year) /	/		
44	Of the total number of miles you drove your vehicle during 2024, enter the number of miles you used your	vehicle	e for:	
а	Business b Commuting (see instructions) c 0	Other		
45	Was your vehicle available for personal use during off-duty hours?		🗌 Yes	☐ No
46	Do you (or your spouse) have another vehicle available for personal use?		🗌 Yes	☐ No
47a	Do you have evidence to support your deduction?		🗌 Yes	☐ No
b	If "Yes," is the evidence written?		🗌 Yes	☐ No
Part	V Other Expenses. List below business expenses not included on lines 8–26, line	27b,	or line 30.	
48	Total other expenses. Enter here and on line 27a	48		

Hypothetical 2

Alex Ames is a real estate entrepreneur and separated from Betsy Blue for two years. Betsy, on her FL-150, item # 4, estimates Alex's monthly income is \$30,000 and states her estimate is based upon: "Alex has always owned multiple buildings and collects rent from several properties. During ten years of marriage, he purchased a new luxury car every two years, always flew first class, and belonged to several expensive clubs. He also told me all the time that he made more than \$30,000 per month."

Alex represents in his FL-150 that his monthly income is substantially lower and represents that his business suffered a downturn and, as a result, he profits are substantially less, particularly as a result of increased costs in maintaining properties. Alex's schedule C is attached. What questions do you have for Alex?

SCHEDULE C (Form 1040)

Profit or Loss From Business

(Sole Proprietorship)

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

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

OMB No. 1545-0074
2024
Attachment

Sequence No. 09 Internal Revenue Service Name of proprietor Social security number (SSN) **Alex Ames** Principal business or profession, including product or service (see instructions) B Enter code from instructions **Real Estate Investments** Business name. If no separate business name, leave blank. D Employer ID number (EIN) (see instr.) Е Business address (including suite or room no.) P.O. Box 2345, Los Angeles CA 90012 City, town or post office, state, and ZIP code (3) Other (specify) F Accounting method: (1) Cash (2) Accrual G Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on losses ... н Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions . . . If "Yes," did you or will you file required Form(s) 1099? . Part I Income Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on 300,000 Form W-2 and the "Statutory employee" box on that form was checked 1 2 2 3 3 Subtract line 2 from line 1 . 4 Cost of goods sold (from line 42) . . 4 5 5 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . Gross income. Add lines 5 and 6 . **Expenses.** Enter expenses for business use of your home only on line 30. 25,000 24,000 8 Advertising 8 18 Office expense (see instructions) . 18 19 19 Pension and profit-sharing plans. Car and truck expenses 9 12.000 20 Rent or lease (see instructions): (see instructions) . . . 9 10 Commissions and fees . 10 Vehicles, machinery, and equipment 20a а Other business property . . . 11 Contract labor (see instructions) 11 h 20b Depletion 24,758.24 12 12 21 Repairs and maintenance . . . 21 13 Depreciation and section 179 13,849 22 Supplies (not included in Part III) . 22 expense deduction (not 23 Taxes and licenses 23 included in Part III) (see 13 24 Travel and meals: instructions) Travel 24a Employee benefit programs 14 (other than on line 19) 14 Deductible meals (see instructions) 24b 15 Insurance (other than health) 15 25 Utilities 16 Interest (see instructions): 26 Wages (less employment credits) 26 27a 100,000 Mortgage (paid to banks, etc.) 16a Other expenses (from line 48) . . . 27a а h Other 16b Energy efficient commercial bldgs 17 Legal and professional services 17 40,000 deduction (attach Form 7205) . 27b Total expenses before expenses for business use of home. Add lines 8 through 27b . . . 239,607 28 28 29 29 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 Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3, 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. 31 • If a loss, you must go to line 32. 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 3, and on Schedule **32a** All investment is at risk. 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. **32b** Some investment is not

• If you checked 32b, you must attach Form 6198. Your loss may be limited.

	e C (Form 1040) 2024			Page 4
Part	Cost of Goods Sold (see instructions)			
33	Method(s) used to value closing inventory: a Cost b Lower of cost or market c Other (att	ach ex	planation)	
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventor If "Yes," attach explanation		. Yes	☐ No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		
Part				
43	When did you place your vehicle in service for business purposes? (month/day/year)	/		
44	Of the total number of miles you drove your vehicle during 2024, enter the number of miles you used your	vehicle	for:	
а	Business b Commuting (see instructions) c	Other		
45	Was your vehicle available for personal use during off-duty hours?		🗌 Yes	☐ No
46	Do you (or your spouse) have another vehicle available for personal use?		🗌 Yes	☐ No
47a	Do you have evidence to support your deduction?		🗌 Yes	☐ No
b	If "Yes," is the evidence written?		Tes	☐ No
Part		27b,	or line 30.	
Profes	sional Services			100,000
48	Total other expenses. Enter here and on line 27a	48		100,000

Hypothetical 3

Darius Drew tells you that he is unable to provide his tax returns because his accountant of several years maintained an office in Pacific Palisades and all records were lost in the January 2025 fires. Drew tells you he gave all of his books and records to his accountant, and did not keep copies.

Drew tells you that he is self-employed as a handyman, earns about \$2,500 per month, and keeps records "the old fashioned way" in a spiral bound notebook that he gave to his accountant before the fires.

Drew's FL-150 states that he lives with his current girlfriend, who pays 100% of the rent on their shared apartment, which rents for \$3,000 per month. Drew's FL-150 indicates that he has two car payments, one for his 2010 Toyota Corolla and another for his 2024 Ford Pick-up truck that he uses for work.

What questions do you have Drew?

Hypothetical 4

Same facts as hypothetical 3, but three months later. Drew tells you that he was able to "reconstruct" his earnings from the past year by looking at his bank records. His tax returns report total income of \$24,550 and his schedule C lists only \$200 for purchase of new tools at a business expense.

What questions do you have for Drew?

Hypothetical 5

Edwina used to work as an executive software designer for a prominent high-tech company. She is now a self-employed consultant. Edwina's former partner, Faramarz, tells you that during their 10-year relationship, Edwina never filed income tax returns and Edwina in fact belonged to an "anti-taxation" organization in which all members pledged to not file tax returns. In response to your request for tax returns, Edwina provides you with copies of what appear to be IRS tax returns for the forgoing year, reporting total net income of \$75,000. You suspect that the purported IRS document that Edwina gave you is not genuine.

What questions do you have for Edwina and what, if anything, may you do to check the authenticity of the purported tax return provided to you?

Hypothetical 6

Fred Flintstone is a W-2 wage earner who has taken several itemized deductions.

Fred's FL-150 indicates "N/A" for real property and further indicates that he pay \$2,000 monthly rent, has approximately \$100 monthly in medical expenses not covered by insurance, and \$800 in monthly payments comprised of student loan, credit card, and car payments.

Fred's Schedule A is attached, along with what he supplied on Form 8328.

What questions do you have for Fred?

SCHEDULE A (Form 1040)

Itemized Deductions

Attach to Form 1040 or 1040-SR.

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

OMB No. 1545-0074 Attachment Sequence No. 07

Department of the Treasury Internal Revenue Service

Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16. Name(s) shown on Form 1040 or 1040-SR Your social security number Fred Flintstone Caution: Do not include expenses reimbursed or paid by others. Medical Medical and dental expenses (see instructions) 1 \$9,350.85 and **Dental** 2 Enter amount from Form 1040 or 1040-SR, line 11 | 2 | **3** Multiply line 2 by 7.5% (0.075) **Expenses** 3 1500 4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-. 7850.85 **Taxes You** 5 State and local taxes. Paid a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, **b** State and local real estate taxes (see instructions) **c** State and local personal property taxes 5c **d** Add lines 5a through 5c 5d e Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing 5e Other taxes. List type and amount: 6 7 Add lines 5e and 6 . . 7 Interest Home mortgage interest and points. If you didn't use all of your home You Paid mortgage loan(s) to buy, build, or improve your home, see Caution: Your instructions and check this box mortgage interest deduction may be a Home mortgage interest and points reported to you on Form 1098. limited See 8a 4800 instructions b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., 8b c Points not reported to you on Form 1098. See instructions for special 8с d Reserved for future use 8d e Add lines 8a through 8c 8e 9 Investment interest. Attach Form 4952 if required. See instructions 9 **10** Add lines 8e and 9 10 4800 Gifts to 11 Gifts by cash or check. If you made any gift of \$250 or more, see Charity 11 20 Caution: If you 12 Other than by cash or check. If you made any gift of \$250 or more, made a gift and 12 2000 see instructions. You must attach Form 8283 if over \$500 . . . got a benefit for it. see instructions 13 **14** Add lines 11 through 13 . . 2020 Casualty and 15 Casualty and theft loss(es) from a federally declared disaster (other than net qualified Theft Losses disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See 15 16 Other—from list in instructions. List type and amount: Other Itemized **Deductions** 16 Total Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on 17 Itemized **Deductions 18** If you elect to itemize deductions even though they are less than your standard deduction,

8283

(Rev. December 2023) Department of the Treasury Internal Revenue Service

Noncash Charitable Contributions

Attach one or more Forms 8283 to your tax return if you claimed a total deduction of over \$500 for all contributed property.

of over \$500 for all contributed property.

Go to www.irs.gov/Form8283 for instructions and the latest information.

OMB No. 1545-0074

Attachment Sequence No. **155**

Name(s) shown on your income tax return Identifying number Fred Flintstone Enter the entity name and identifying number from the tax return where the noncash charitable contribution was originally reported, if different from above. Identifying number: Check this box if a family pass-through entity made the noncash charitable contribution. See instructions Note: Figure the amount of your contribution deduction before completing this form. See your tax return instructions. Section A. Donated Property of \$5,000 or Less and Publicly Traded Securities - List in this section only an item (or a group of similar items) for which you claimed a deduction of \$5,000 or less. Also list publicly traded securities and certain other property even if the deduction is more than \$5,000. If you need more space. attach a statement. See instructions. 1 (a) Name and address of the (b) If donated property is a vehicle (see instructions), (c) Description and condition of donated property donee organization check the box. Also enter the vehicle identification (For a vehicle, enter the year, make, model, and number (unless Form 1098-C is attached) mileage. For securities and other property, see instructions.) Holiday Toy Drive - Dinosaur School District Toys (all new) -- \$ 400 Α Holiday Food Drive - Dinosaur Food Bank Canned goods - all new -400 В Holiday Toy Drive - Barney's charity Toys -\$ 400 -new С Clothing - Barney's charity clorthing - almost new -- \$ 400 D Note: If the amount you claimed as a deduction for an item is \$500 or less, you do not have to complete columns (e), (f), and (g), (d) Date of the (e) Date acquired (f) How acquired (a) Donor's cost (h) Fair market value (i) Method used to determine contribution by donor (mo., vr.) by donor or adjusted basis (see instructions) the fair market value Α В С D Donated Property Over \$5,000 (Except Publicly Traded Securities, Vehicles, Intellectual Property or Inventory Reportable in Section A) - Complete this section for one item (or a group of similar items) for which you claimed a deduction of more than \$5,000 per item or group (except contributions reportable in Section A). Provide a separate form for each item donated unless it is part of a group of similar items. A qualified appraisal is required for items reportable in Section B and in certain cases must be attached. See instructions. **Information on Donated Property** Check the box that describes the type of property donated. See instructions for definitions. **a** Art (contribution of \$20,000 or more) **d** Other real estate i Vehicles **b** Qualified conservation contribution i Clothing and household items ☐ Equipment k Digital assets **b(1)** Certified historic structure ☐ Securities NPS# Collectibles I ✓ Other g c Art (contribution of less than \$20,000) ☐ Intellectual property (a) Description of donated property (if you need (b) If any tangible personal property or real property was donated, give a brief (c) Appraised fair 3 more space, attach a separate statement) summary of the overall physical condition of the property at the time of the gift. market value Α В C (d) Date acquired (h) Qualified (e) How acquired by donor (f) Donor's cost or (g) For bargain sales. (i) Amount claimed conservation as a deduction by donor adiusted basis enter amount (mo., yr.) contribution (see instructions) relevant basis (see instructions) Α В C

Form 82	83 (Rev. 12-2023)		Page 2			
Name(s) shown on your income tax return		Identifying number			
Part	Partial Interests and Restricted Use Property (C Complete lines 4a through 4e if you gave less than Complete lines 5a through 5c if conditions were p attach the required statement. See instructions.	n an entire interest in a property lis	sted in Section B, Part I.			
4a	Enter the letter from Section B, Part I that identifies the prope		ntire interest			
	If Section B, Part II applies to more than one property, attach	a separate statement.				
b	Total amount claimed as a deduction for the property listed in	n Section B, Part I: (1) For this tax ye	ear			
		(2) For any prior	tax years			
С	Name and address of each organization to which any such contribution was made in a prior year (complete only if different from the donee organization in Section B, Part V, below): Name of charitable organization (donee)					
	Address (number, street, and room or suite no.)	City or town, state, and ZIP cod	de			
d	For tangible property, enter the place where the property is lo					
е	Name of any person, other than the donee organization, having	ng actual possession of the property				
_			Yes No			
ba b	 Is there a restriction, either temporary or permanent, on the donee's right to use or dispose of the donated property? Did you give to anyone (other than the donee organization or another organization participating with the donee organization in cooperative fundraising) the right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire? 					
_						
Part	Is there a restriction limiting the donated property for a partic Taxpayer (Donor) Statement—List each item inc	luded in Section P. Part Labove th	on the appraisal identifies			
Part	as having a value of \$500 or less. See instructions		iat trie appraisai identifies			
Signati	more than \$500 (per item). Enter identifying letter from Section ure of er (donor)	n B, Part I and describe the specific it	em. See instructions. Date			
Part						
married	that I am not the donor, the donee, a party to the transaction in which the done to any person who is related to any of the foregoing persons. And, if regularly used uring my tax year for other persons.					
of prope fraudule abetting substan under se	eclare that I perform appraisals on a regular basis; and that because of my qual orty being valued. I certify that the appraisal fees were not based on a percentage nt overstatement of the property value as described in the qualified appraisal or the understatement of tax liability). I understand that my appraisal will be used tial or gross valuation misstatement of the value of the property claimed on the ection 6695A of the Internal Revenue Code, as well as other applicable penalties oppraisal barred from presenting evidence or testimony before the Department of the contract of the contract	pe of the appraised property value. Furthermore, this Form 8283 may subject me to the penalty up in connection with a return or claim for refund. I return or claim for refund that is based on my ap s. I affirm that I have not been at any time in the to	I understand that a false or under section 6701(a) (aiding and also understand that, if there is a praisal, I may be subject to a penalty three-year period ending on the date			
Sign	Appraiser signature		Date			
Here	Appraiser name	Title				
			Identifying number			
City or	town, state, and ZIP code					
Part						
prope	naritable organization acknowledges that it is a qualified organ ty as described in Section B, Part I, above on the following da	ite				
B, Par and gi	rmore, this organization affirms that in the event it sells, exchat I (or any portion thereof) within 3 years after the date of receive the donor a copy of that form. This acknowledgment does	pt, it will file Form 8282 , Donee Inform not represent agreement with the claim	nation Return, with the IRS med fair market value.			
	he organization intend to use the property for an unrelated use of charitable organization (donee)	Employer identification number	∐Yes ∐No			
Addres	s (number, street, and room or suite no.)	City or town, state, and ZIP code				
Author	zed signature	Title	Date			