

Name \_\_\_\_\_

Federal Income Tax  
Investment Interest Illustration

During the current year, David reports interest and dividend income of \$18,000, net short-term capital gains of \$6,000, and net long-term capital gains of \$7,000. His AGI is \$120,000. His investment expenses, exclusive of interest, are \$5,000. During the year David also pays a total of \$55,000 interest on debt incurred on his investment activities. David is married and files a joint return.

- a. What is the total amount of deduction David may take with respect to his investment interest expense if he does not make a special election?
- b. What is the treatment of any disallowed investment interest expense?

	A	B	C	D
1	<b>INVESTMENT INCOME:</b>			
2	<b>Interest &amp; Dividend</b>			
3	<b>ST Capital Gains</b>			
4	<b>LT Capital Gains</b>			
5	<b>Total Income</b>			
6	<b>INVESTMENT EXPENSES</b>			
7	<b>Less: 2% of AGI</b>			
8	<b>NET INVESTMENT INCOME</b>			

- c. What is the total amount of deduction David may take with respect to his investment interest expense if he elects to have his net capital gain taxed at the regular marginal tax rates?

	A	B	C	D
1	<b>INVESTMENT INCOME:</b>			
2	<b>Interest &amp; Dividend</b>			
3	<b>ST Capital Gains</b>			
4	<b>LT Capital Gains</b>			
5	<b>Total Income</b>			
6	<b>INVESTMENT EXPENSES</b>			
7	<b>Less: 2% of AGI</b>			
8	<b>NET INVESTMENT INCOME</b>			