



Tax Preparation Simplified

So why is “simplification” such
a long word?



Simplified Tax Preparation A Three Step Process

Step # 1

How much did you make last year?



Step # 2

How much do you have left?



Step # 3

Send amount in Step 2 to the IRS.



“Federal Tax Laws with Emphasis on Senior Issues”

- Interest
- Dividends
- Capital Gains
- Retirement Income
 - IRA's
 - Pensions
 - Social Security
- Deductions
- A Credit or two



Useful References

- Form 1040 Instructions
- Form 1040
- Publications, especially pub 17
- IRS website: irs.gov



New for 2008

- Return of the ESP!
- Real Estate Taxes can be included in the Standard Deduction
- First Time Homebuyers Credit
- Some “Adjustments” extended
- Usual inflation adjustments



Who must file?

- **Everyone?**
- **How do you decide?**
- **It depends on:**
 - Filing Status
 - Age
 - Income
 - Other Factors
- **If in doubt - file!**



Who should file?

- **Anyone wanting:**
 - A tax refund (excess withholding)
 - Certain credits (EIC, ACTC, RRC)
 - A copy of their return:
 - To get a real estate tax reduction
 - In case they hear from the IRS
- **Confused?**
 - Unless obvious, prepare the return

Label

(See instructions on page 14.)
Use the IRS label. Otherwise, please print or type.

L
A
B
E
L

H
E
R
E

For the year Jan. 1-Dec. 31, 2008, or other tax year beginning _____, 2008, ending _____, 20		OMB No. 1545-0074
Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see page 14.		▲ You must enter your SSN(s) above. ▲
Apt. no.		
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.		Checking a box below will not change your tax or refund.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) You Spouse

Filing Status

Check only one box.

- 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 page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
- 5 Qualifying widow(er) with dependent child (see page 16)

Exemptions

If more than four dependents, see page 17.

6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a	Boxes checked on 6a and 6b			
b <input type="checkbox"/> Spouse	No. of children on 6c who:			
c Dependents:				
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If qualifying child for child tax credit (see page 17)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
d Total number of exemptions claimed				Add numbers on lines above ▶ <input style="width: 50px;" type="text"/>

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 21.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7
8a	Taxable interest. Attach Schedule B if required	8a
b	Tax-exempt interest. Do not include on line 8a	8b
9a	Ordinary dividends. Attach Schedule B if required	9a
b	Qualified dividends (see page 21)	9b
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 22)	10
11	Alimony received	11
12	Business income or (loss). Attach Schedule C or C-EZ	12
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	IRA distributions	15a
b	Taxable amount (see page 23)	15b
16a	Pensions and annuities	16a
b	Taxable amount (see page 24)	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	Social security benefits	20a
b	Taxable amount (see page 26)	20b
21	Other income. List type and amount (see page 28)	21
22	Add the amounts in the far right column for lines 7 through 21. This is your total income ▶	22

Adjusted Gross Income

23	Educator expenses (see page 28)	23
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24
25	Health savings account deduction. Attach Form 8889	25
26	Moving expenses. Attach Form 3903	26
27	One-half of self-employment tax. Attach Schedule SE	27
28	Self-employed SEP, SIMPLE, and qualified plans	28
29	Self-employed health insurance deduction (see page 29)	29
30	Penalty on early withdrawal of savings	30
31a	Alimony paid	31a
b	Recipient's SSN ▶	
32	IRA deduction (see page 30)	32
33	Student loan interest deduction (see page 33)	33
34	Tuition and fees deduction. Attach Form 8917	34
35	Domestic production activities deduction. Attach Form 8903	35
36	Add lines 23 through 31a and 32 through 35	36
37	Subtract line 36 from line 22. This is your adjusted gross income ▶	37

Tax and Credits

Standard Deduction for—
 • People who checked any box on line 39a, 39b, or 39c or who can be claimed as a dependent, see page 34.
 • All others:
 Single or Married filing separately, \$5,450
 Married filing jointly or Qualifying widow(er), \$10,900
 Head of household, \$8,000

38 Amount from line 37 (adjusted gross income) **38**

39a Check You were born before January 2, 1944, Blind. Total boxes if: Spouse was born before January 2, 1944, Blind. checked ▶ **39a**

b If your spouse itemizes on a separate return or you were a dual-status alien, see page 34 and check here ▶ **39b**

c Check if standard deduction includes real estate taxes or disaster loss (see page 34) ▶ **39c**

40 **Itemized deductions** (from Schedule A) or your **standard deduction** (see left margin) **40**

41 Subtract line 40 from line 38 **41**

42 If line 38 is over \$119,975, or you provided housing to a Midwestern displaced individual, see page 36. Otherwise, multiply \$3,500 by the total number of exemptions claimed on line 6d **42**

43 **Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- **43**

44 **Tax** (see page 36). Check if any tax is from: a Form(s) 8814 b Form 4972 **44**

45 **Alternative minimum tax** (see page 39). Attach Form 6251 **45**

46 Add lines 44 and 45 **46**

47 Foreign tax credit. Attach Form 1116 if required **47**

48 Credit for child and dependent care expenses. Attach Form 2441 **48**

49 Credit for the elderly or the disabled. Attach Schedule R **49**

50 Education credits. Attach Form 8863 **50**

51 Retirement savings contributions credit. Attach Form 8880 **51**

52 Child tax credit (see page 42). Attach Form 8901 if required **52**

53 Credits from Form: a 8396 b 8839 c 5695 **53**

54 Other credits from Form: a 3800 b 8801 c **54**

55 Add lines 47 through 54. These are your **total credits** **55**

56 Subtract line 55 from line 46. If line 55 is more than line 46, enter -0- ▶ **56**

Other Taxes

57 Self-employment tax. Attach Schedule SE **57**

58 Unreported social security and Medicare tax from Form: a 4137 b 8919 **58**

59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required **59**

60 Additional taxes: a AEIC payments b Household employment taxes. Attach Schedule H **60**

61 Add lines 58 through 60. This is your **total tax** **61**

Payments

If you have a qualifying child, attach Schedule EIC.

62 Federal income tax withheld from Forms W-2 and 1099 **62**

63 2008 estimated tax payments and amount applied from 2007 return **63**

64a **Earned income credit (EIC)** **64a**

b Nontaxable combat pay election **64b**

65 Excess social security and tier 1 RRTA tax withheld (see page 61) **65**

66 Additional child tax credit. Attach Form 8812 **66**

67 Amount paid with request for extension to file (see page 61) **67**

68 Credits from Form: a 2439 b 4136 c 8801 d 8865 **68**

69 First-time homebuyer credit. Attach Form 5405 **69**

70 Recovery rebate credit (see worksheet on pages 62 and 63) **70**

71 Add lines 62 through 70. These are your **total payments** **71**

Refund

Direct deposit? See page 63 and fill in 73b, 73c, and 73d, or Form 8888.

72 If line 71 is more than line 61, subtract line 61 from line 71. This is the amount you overpaid **72**

73a Amount of line 72 you want refunded to you. If Form 8888 is attached, check here ▶ **73a**

b Routing number ▶ c Type: Checking Savings

d Account number ▶

74 Amount of line 72 you want applied to your 2009 estimated tax ▶ **74**

Amount You Owe

75 **Amount you owe.** Subtract line 71 from line 61. For details on how to pay, see page 65 ▶ **75**

76 Estimated tax penalty (see page 65) **76**

Third Party Designee

Do you want to allow another person to discuss this return with the IRB (see page 66)? Yes. Complete the following. No

Designee's name ▶ Phone no. () ▶ Personal identification number (PIN) ▶

Sign Here

Joint return? See page 15. Keep a copy for your records.

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.

Your signature Date Your occupation Daytime phone number ()

Spouse's signature, if a joint return, both must sign. Date Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶ Date Check if self-employed Preparer's SSN or PTIN

Firm's name (or yours if self-employed), address, and ZIP code ▶ EIN ▶ Phone no. () ▶



Filing Status

What is it?



Filing Status Options

- **Federal (5):**
 - Single
 - Married Filing Jointly
 - Married Filing Separately
 - Qualifying Widow(er)
 - Head of Household
- **Virginia (3):**
 - Single (box for HOH)
 - Married Filing Joint
 - Married Filing Separate
- **Virginia Part Year (4)**



Why is Filing Status important?

- **It affects tax**
- **It determines availability of credits**
- **It is a common error**



MFS Disadvantages

- **Highest tax**
- **Lower standard deduction**
- **Many credits eliminated or reduced**



Interest Income

- Reported to you on 1099-INT
- Bank deposits, savings accounts, CD's
- Bonds
- OID (reported on 1099-OID)
- Tax exempt interest- must be reported



Dividends

- Reported to you on 1099-DIV
- Two types - ordinary and qualified
- Qualified taxed at lower rate
- Includes reinvested dividends - DRIPS
- Mutual Bond Fund interest reported as dividends



Capital Gains

- The profit you make when you sell a capital asset - basically anything you own.
- The difference between cost (called "basis") and selling price



Basis

- Very important but can be difficult to determine
- Generally, basis is the cost.
- Basis for **gifted** assets = the donor's basis
- Basis for **inherited** assets = the fair market value (FMV) on the date of death
- For a home, use **Adjusted Basis**
 - Original cost
 - Plus cost of “capital” improvements
 - Minus depreciation (e.g. if rented)
 - Minus postponed gains



Some Basis Problems

- **Time - bought many years ago**
- **Stock Splits**
- **Reinvested Dividends**
- **Identifying which shares sold**
 - Specific shares
 - FIFO or LIFO
 - Average cost
- **Homes - don't forget postponed pre-1997 gains**



Short vs Long Term Gains or Losses

- **Short Term**

- Held one year or less
- Taxed at regular income tax rate

- **Long Term**

- Held for more than one year
- Taxed at lower capital gains rate



Capital Losses

- Can sometimes be used to offset gains
- Losses from sale of **personal property** are not reported.
- **Wash sale** losses cannot be used
- Long-term losses can offset long-term gains.
- Short-term losses can offset short-term gains.
- Any long-term losses left over can offset short-term gains and vice versa.
- Losses remaining can offset **ordinary income** but only up to \$3,000 (\$1,500 if MFS).
- Unused losses can be **carried forward** until used



Retirement Income

- **IRA's**
- **Pensions & Annuities**
- **Social Security Benefits**



IRA Distributions

- Distributions reported on form 1099-R
- Most “Traditional” IRA distributions are taxable (unless non-deductible contributions made)
- Distributions up to \$100,000 direct to a qualified charity not taxable
- “Roth” IRA distributions are not taxable if “qualified”
- 10% penalty for early withdrawal (some exceptions)



Common Distribution Codes shown on 1099-R

- Code 1 – Early distribution (Traditional IRA)
- Code 4 – Exception applies (Traditional IRA)
- Code 7 – Normal distribution (Traditional IRA)
- Code G – Direct rollover to eligible plan
- Code Q – Qualified distribution (Roth IRA)
- Code T – Exception applies (Roth IRA)



Required Minimum Distribution

- First distribution by April 1 of year after the year in which taxpayer turns 70 ½.
- Second distribution by Dec. 31 of year after the year taxpayer turns 70 ½.
- Subsequent distributions by Dec. 31.
- No credit for prior years' distributions.
- 50% penalty for “excess accumulation.”
- **Required even if working**



Determining RMD

- Divide IRA balance at end of prior tax year by the applicable distribution period or life expectancy.
- Each IRA has its own RMD, but total distribution can be taken from any of them.
- RMD waived for TY 2009



PENSIONS & ANNUITIES

- Reported on Forms:
 - 1099-R Most common
 - RRB-1099R Railroad Benefits Tier 2
 - CSA-1099R Civil Service

- The problem - how much is taxable?

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119			
		\$		2008			
PAYER'S federal identification number		2a Taxable amount		Form 1099-R			
		\$					
PAYER'S federal identification number		RECIPIENT'S identification number		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	
RECIPIENT'S name		3 Capital gain (included in box 2a)		4 Federal income tax withheld		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.	
Street address (including apt. no.)		\$		\$			
City, state, and ZIP code		5 Employee contributions /Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		This information is being furnished to the Internal Revenue Service.	
1st year of desig. Roth contrib.		\$		\$			
Account number (see instructions)		7 Distribution code(s)		8 Other			
		9a Your percentage of total distribution %		9b Total employee contributions %			
		10 State tax withheld		11 State/Payer's state no.		12 State distribution	
		\$				\$	
		\$				\$	
		13 Local tax withheld		14 Name of locality		15 Local distribution	
		\$				\$	
		\$				\$	



Determining Taxable Amount

- **Fully Taxable**

- Gross Distribution (Box 1) = Taxable amount (Box 2a)
- No basis in plan (non-contributory pension)
- All distributions taxable

- **Partially Taxable**

- Gross Distribution (Box 1) > Taxable amount (Box 2a)
- Or “Taxable Amount Not Determined” box 2b checked
- You have a basis or cost in the plan (shown in box 9b)
- Special rules apply



Rules For Partially Taxable Payments

- **Simplified Method**
 - Most common
 - Required for qualified plans after Nov 18. 1996
 - Divide cost in plan by the total number of anticipated payments
- **General Rule**
 - Use if used previously
 - More complicated
- **Use Worksheets** and follow instructions



Exceptions

- **Railroad and Civil Service** retirees have different forms:
 - Forms RRB-1099 and CSA-1099
 - Similar to 1099-R but different box numbers
- **Disability Pensions:**
 - If below normal retirement age report as wages not pension



Social Security Benefits

- **Social Security**
 - Reported on SSA-1099
- **Railroad Retirement Tier 1**
 - Reported on RRB-1099
 - Equivalent to Social Security
 - Same rules as Social Security
- **May be taxable**



Taxability of Social Security

- Up to 85% of Benefit can be Taxable
- Amounts exempt from tax depend on Filing Status and income (incl. 50% of SS):
 - \$32000 MFJ
 - \$25,000 S, HOH, QW & MFS if lived apart all year
 - \$0 MFS if lived together any part of year
- Use complicated worksheet



Deductions

- Taxpayer may take:
 - The Standard Deduction or
 - Itemize Deductions
- Standard deduction based on filing status, age, and eye sight
- If itemizing, Schedule A must be prepared



Standard Deduction

Base rates for 2008:

■ Married, joint return	\$10,900
■ Single	\$5,450
■ Married, separate return	\$5,450
■ Head of household	\$8000

Add-on if 65 or older

■ Married	\$1,050
■ Single	\$1,350

Add-on if Blind

■ Married	\$1,050
■ Single	\$1,350



Property Tax Deduction

- **New for 2008**

- Increase in Standard Deduction for:
- Those who pay property taxes but do not itemize deductions
- Maximum increase to Standard Deduction is \$1000 MFJ or \$500 S
- Check box on 1040 line 39c and use worksheet



Itemized Deductions Schedule A

- Medical Expenses
- Certain Taxes
- Interest
- Gifts to Charity
- Casualty & Theft Losses
- Miscellaneous Expenses



Medical Expenses

- **Must be paid by the Taxpayer**
 - Cannot be reimbursed expenses
 - Not all “medical expenses” qualify
- **Must be paid during the tax year**
- **Only for Taxpayer, spouse or dependents**



Taxes

- MUST be imposed on the taxpayer
- MUST be paid by the taxpayer
- MUST be paid in the current tax year



Deductible Taxes

- State and Local Income **or Sales** taxes
- Real Estate taxes – generally reported by mortgage company on Form 1098
- Personal Property taxes (based on **value** of property/car)



Non-Deductible Taxes

- Federal income and excise taxes
- Social Security & Medicare taxes
(deducted from paycheck)
- Federal Unemployment Tax (FUTA)
- Customs duties
- Federal Estate and Gift taxes



Deductible Interest

- **Home Mortgage**
 - Interest/Points from Form 1098
 - Points not reported on Form 1098
 - Qualified Mortgage Insurance premiums
- **Investment Interest**



Gifts to Charity

- Receipts or bank records required
- Other-than-cash gifts over \$500 require Form 8283
- Over \$5000 require appraisal
- Cars require a 1098-C from recipient
- Clothing & household items must be in “good” condition
- If > 20% of AGI check the rules
- Out-of-pocket expenses like mileage @ 14¢, tolls, parking, can be included



Miscellaneous Deductions

- **To the extent they exceed 2% of AGI:**
 - Un-reimbursed employee expense
 - Tax Preparation Fees
 - Other Expenses (see 1040 Instructions)

- **Other Miscellaneous Deductions:**
 - Gambling losses up to extent of winnings



Credits

We will look at:

- Foreign tax credit
- Credit for the elderly or disabled
- First-time Homebuyers Credit
- Recovery Rebate Credit



Foreign Tax Credit

- Take as itemized deduction or
- Take as credit (usually better)
- 1040 Line 47
- May need form 1116 if $> \$300$ ($\$600$ MFJ)



Credit for the Elderly or Disabled

- 65 years or older, or:
- Under 65 and retired on permanent and total disability and has disability income
- Use Schedule R
- But almost no-one qualifies!
 - Max AGI \$25000 MFJ both spouses over 65
 - Max AGI \$17500 if single
 - Max SS \$7500 MFJ



RESIDENTIAL ENERGY CREDITS

- **Non-business Energy Property Credit has expired:**
 - Insulation, windows, doors, etc.
- **Residential Energy Efficient Property Credit is still valid:**
 - Qualified Solar and Fuel Cell devices



Recovery Rebate Credit

- Return of the ESP!
- Additional payment possible if filing status or income has changed since 2007
- Amount of ESP received during 2008 **must be known** - if in doubt call IRS
- Refundable
- Complicated worksheet



First Time Home-buyers Credit

- **REFUNDABLE CREDIT**
- New for 2008
- Must be main home
- Must be purchased after April 9 2008
- Must not have owned a home during prior 3 years
- Credit **must be repaid** over 15 years starting 2010
- Maximum credit is \$7500 (\$3750 MFS)
- Form 5505 required

Don't forget estimated taxes

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099 . . .	64	
65	2006 estimated tax payments and amount applied from 2005 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election ▶ 66b		
67	Excess social security and tier 1 RRTA tax withheld (see page 60)	67	
68	Additional child tax credit. Attach Form 8812	68	
69	Amount paid with request for extension to file (see page 60)	69	
70	Payments from: a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885 . . .	70	
71	Credit for federal telephone excise tax paid. Attach Form 8913 if required	71	
72	Add lines 64, 65, 66a, and 67 through 71. These are your total payments ▶	72	



Underpayment Penalty

- Due if taxes owed exceed \$1000
- Unless withholdings exceed:
 - 90% of current year tax liability, or
 - 100% of prior year tax liability, or
 - 110% of prior year tax liability if AGI is over \$150,000



Finally Beware the AMT!!

- 23 million in 2007 and growing!
- Depends on:
 - Income level
 - Type of income
 - Deductions
- Requires a complicated form - 6251



The Last Word

The hardest thing in the world to understand is income tax!□

Albert Einstein