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
Form 1040
Department of the Treasury—Internal Revenue Service

Page 10

Label
Your first name and initial
Last name
Your social security number

If you or your spouse if filing jointly, went $0 to go to the fund (see page 1.6) □ □

You: □ Spouse: □

Filing Status
Check only one box:
(See instructions on page 14.)

1 □ Single
2 □ Married filing jointly (even if only one had income)
3 □ Married filing separately. Enter spouse’s SSN above and file return here.
4 □ Head of household (with qualifying person) (See page 15)
You: □ Spouse: □

Exemptions
a. You, yourself, if someone can claim you as a dependent, do not check box below.
   a. You: □ Spouse: □
b. Spouse: □
   a. You: □ Spouse: □
c. Dependents:
   1) Name: □ SSN: □
   2) Dependent’s relation to you

If more than four dependents, see page 17.

Income
a. Wages, salaries, tips, etc. Attach Form(s) W-2  □
   b. Tax-exempt interest. Attach Schedule B if required  □
   c. Ordinary dividends. Attach Schedule B if required  □
   d. Qualified dividends (see page 21)  □
   e. Taxable refunds, credits, or offsets of estate and gift taxes. See page 22  □
   f. Alimony received  □
   g. Business income or loss. Attach Schedule C or C-EZ  □
   h. Capital gains or losses. Attach Schedule D if required. If not required, check here □
   i. Other gains or losses. Attach Form 4797 if required. □
   j. IRA distributions □
   k. Pensions and annuities □
   l. Social security benefits □
   m. Other income. List type and amount (see page 28) □

Adjusted Gross Income
a. Educator expenses (see page 28) □
   b. Certain business expenses of farmers, performing artists, and sea-basin government officials. Attach Form 2106 or 2106-EZ □
   c. Health savings account deduction. Attach Form 5892 □
   d. Moving expenses. Attach Form 3903 □
   e. One-half of self-employment tax. Attach Schedule SE □
   f. Self-employed SEP, SIMPLE, and qualified plans □
   g. Self-employed health insurance deduction (see page 20) □
   h. Penalty on early withdrawal of savings □
   i. Alimony paid to parents [child] □
   j. IRA deduction (see page 30) □
   k. Student loan interest deduction (see page 39) □
   l. Tuition and fees deduction. Attach Form 8917 □
   m. Domestic production activities deduction. Attach Form 8831 □
   n. Add lines 23 through 35 and 36 through 37 □
   o. Subtract line 36 from line 22. This is your adjusted gross income □

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 88. Cat. No. 15326D Form 1040 (2008)
<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Amount from line 37 (adjusted gross income)</td>
<td></td>
</tr>
<tr>
<td>39a</td>
<td>Total taxes</td>
<td></td>
</tr>
<tr>
<td>39b</td>
<td>Subtotal line 39</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Itemized deductions (from Schedule A) or your standard deduction (see left margin)</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Subtotal line 40</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Taxable income</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Subtotal line 41</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Alternative minimum tax (see page 30)</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Add lines 44 and 45</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Foreign tax credit. Attach Form 1116 if required</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Credit for child and dependent care expenses. Attach Form 2441</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Credit for the elderly or disabled. Attach Schedule R</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Education credits. Attach Form 8865</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Retirement savings contributions deduction. Attach Form 8861</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Child tax credit (see page 40)</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Credit from Form 8: a 6290, b 8639, c 5695</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Other credits from Form 8: a 5800, b 8201, c 5695</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Add lines 57 through 59. These are your total credits</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Subtotal line 55 from line 59. If line 68 is more than line 52, enter 52</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Self-employment tax. Attach Schedule SE</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Unreported social security and Medicare tax from Form: a 4177, b 6919</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>Additional tax on FEBA, other qualified retirement plans, etc. Attach Form 8861 if required</td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>Additional taxes. a ADO payments is b Household employment taxes. Attach Schedule 2</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Add lines 58 through 60. This is your total tax</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>Federal income tax withheld from Forms W-2 and 1009</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>2006 estimated tax payments and amount applied from 2007 return</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Earned income credit (EIC)</td>
<td></td>
</tr>
<tr>
<td>64a</td>
<td>Non-taxable combat pay deduction</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>Excess social security and tier 1 RETA tax withheld (see page 65)</td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>Additional child tax credit. Attach Form 8812</td>
<td></td>
</tr>
<tr>
<td>67</td>
<td>Amount paid with request for extension to file (see page 67)</td>
<td></td>
</tr>
<tr>
<td>68</td>
<td>Credits from Form 8: a 5432, b 4156, c 8601, d 8866</td>
<td></td>
</tr>
<tr>
<td>69</td>
<td>Exemptions: Are you a homeowner? Attach Form 5805</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>Recovery rebate credit. (see worksheet on pages 68 and 69)</td>
<td></td>
</tr>
<tr>
<td>71</td>
<td>Add lines 66 through 70. These are your total payments</td>
<td></td>
</tr>
<tr>
<td>72</td>
<td>If line 71 is more than line 51, subtract line 51 from line 71. This is the amount you repaid</td>
<td></td>
</tr>
<tr>
<td>72a</td>
<td>Amount of line 72 you want refunded to you. If Form 8865 is attached, check here □</td>
<td></td>
</tr>
<tr>
<td>72b</td>
<td>□ Yes. Complete the following. □ No</td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Add lines 62 through 70. These are your total payments</td>
<td></td>
</tr>
<tr>
<td>74</td>
<td>If line 71 is more than line 51, subtract line 51 from line 71. This is the amount you repaid</td>
<td></td>
</tr>
<tr>
<td>74a</td>
<td>Amount of line 72 you were applied to your 2006 estimated tax □</td>
<td></td>
</tr>
<tr>
<td>75</td>
<td>Amount you owe. Subtract line 71 from line 61. For details on how to pay, see page 65</td>
<td></td>
</tr>
</tbody>
</table>
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?
<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross distribution</td>
</tr>
<tr>
<td>2a</td>
<td>Taxable amount</td>
</tr>
<tr>
<td>2b</td>
<td>Taxable amount not determined</td>
</tr>
<tr>
<td>3</td>
<td>Capital gain (included in box 2a)</td>
</tr>
<tr>
<td>4</td>
<td>Federal income tax withheld</td>
</tr>
<tr>
<td>5</td>
<td>Employee contributions /Designated Roth contributions or insurance premiums</td>
</tr>
<tr>
<td>6</td>
<td>Net unrealized appreciation in employer’s securities</td>
</tr>
<tr>
<td>7</td>
<td>Distribution code(s)</td>
</tr>
<tr>
<td>8</td>
<td>Other</td>
</tr>
<tr>
<td>9a</td>
<td>Your percentage of total distribution</td>
</tr>
<tr>
<td>9b</td>
<td>Total employee contributions</td>
</tr>
<tr>
<td>10</td>
<td>State tax withheld</td>
</tr>
<tr>
<td>11</td>
<td>State/Payer’s state no.</td>
</tr>
<tr>
<td>12</td>
<td>State distribution</td>
</tr>
<tr>
<td>13</td>
<td>Local tax withheld</td>
</tr>
<tr>
<td>14</td>
<td>Name of locality</td>
</tr>
<tr>
<td>15</td>
<td>Local distribution</td>
</tr>
</tbody>
</table>

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.

This information is being furnished to the Internal Revenue Service.
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
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

64  Federal income tax withheld from Forms W-2 and 1099 . .
65  2006 estimated tax payments and amount applied from 2005 return
66a Earned income credit (EIC) . . . . . . . . . . . . . . . . . . . .
   b Non-taxable combat pay election ▶ 66b
67  Excess social security and tier 1 RRTA tax withheld (see page 60)
68  Additional child tax credit. Attach Form 8812 . . . .
69  Amount paid with request for extension to file (see page 60)
70  Payments from:  a □ Form 2493 b □ Form 4136 c □ Form 8855 .
71  Credit for federal telephone excise tax paid. Attach Form 8913 if required
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 hardest thing in the world to understand is income tax!

Albert Einstein