

Today's Tax Tips

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"The Tax Lady"

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Did You Know?

- IRS Code – Over 75,000 Pages
- Over 720 Forms
- 135,000 Employees
 - Two times size of CIA
 - Five times size of FBI
- 1040-EZ – 36 Pages of Instructions
- Average Family Spends 38% of Income on Taxes

Contents

- Filing Requirements and Status
- Special Situations for Seniors
- Income
 - Interest, Dividends, Cap. Gains, Pension, etc...
- Social Security
- Deductions
- Credits
- Tax Payments

Do I Need To File?

- Typically yes
- If you will owe taxes
- Refund
- Income reported to IRS or State
- Self employment income over \$400
- Report gifts given
- Carry over losses

Filing Status

- Single
- Head of Household (single with dependant child)
- Married Filing Jointly
(TYPICALLY THE BEST)
- Married Filing Separately
- Qualifying Widow(er)

Special Situations for Seniors (>65)

- Higher Standard Deduction
 - \$12,800 (MFJ/QW)
 - \$6,650 (Single)
 - \$9,150 (HOH)
 - \$6,400 (MFS)
- Higher Deduct. for LTC Premiums (\$290-\$3680)
- Federal Credits for Seniors or the disabled
- State and Local Property Tax Credits

Interest Income

- Schedule B
- 1099-INT
- Savings account
- Certificate of deposit (CD)
- Original issue discount (OID)
- Tax exempt interest
 - Must be reported
 - Could be exempt on state level as well
- Interest paid on a private loan

Dividends

- Schedule B
- 1099-DIV
- Ordinary
 - Taxed at normal income tax rate
- Qualified
 - 5%-15%

State Tax Refunds

- 1099-G
- Are they taxable?
- Why are they taxable?

Self Employment Income

- Schedule C
- 1099-Misc
- Report over \$400
- May take deductions
- Only take losses on actual business
- NO HOBBY LOSSES
- Highest rate of audit

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Capital Gains

- Schedule D
- Usually reported to you on 1099-B
- Profit made when you sell ANYTHING!!!
 - Stocks
 - Investments
 - Homes
- Gains on personal property (cars, jewelry, clothing)

Basis

- Basis – What you paid
- Gift – Donor's basis
- Inherited – Fair Market Value on date of passing

Capital Gains

- Long Term > 1 year
 - 5%-15%
- Short Term < 1 year
 - Your tax rate up to 35%
- Losses offset gains
- \$3,000 limit (\$1,500 MFS)
- Carry forward losses until used up

Sale of Home

- IRS Section 121
- MUST BE PRIMARY RESIDENCE
- Profit Exclusion
 - \$250,000 (Single)
 - \$500,000 (Married)
- 2 of 5 years prior to sale
- Can be done every two years
- Exceptions to time requirement
 - Job Change
 - Medical Issues
 - Financial Difficulty
 - Death of Dependant

Sale of Home

NEW LAW AS OF 12/20/07!!!

- If spouse passes away:
 - Have 2 years to sell
 - Get \$500,000 exclusion
 - This alleviates pressure to sell right away

TAX SECRET!!!

PRESTON RULE!!!

- Bought house <1977
- Paid for by one spouse's income
- Surviving spouse gets stepped up basis
 - FULL FAIR MARKET VALUE ON DAY OF SPOUSE'S PASSING!!!
- NO ONE KNOWS THIS RULE!!!

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Pension Income

- 1099-R
- IRA Distributions
 - Traditional (taxable)
 - Roth (non-taxable)
 - SEP/SIMPLE (taxable)
- 401K or other retirement accounts
 - Typically all taxable

IRA

- Don't forget your RMD
 - Required Min. Distribution
 - Over 70 ½
- Must take by April 1 of year after 70 1/2
- Oops...50% Penalty!!!
- Can direct RMD to IRS Recognized Charity
 - Washes it out
 - 100K limit per taxpayer

Other Types of Retirement Pay

- Annuity
- Disability
- Railroad Retirement
- Military Retirement
- Federal Gov't Pension
- State/Local Gov't Pension

Federal Gov't Pension

- Taxable
- Make sure you withhold taxes!!!
- Not all taxable
 - Simplified Method
 - Excludes Employee Contributions
 - **OFTEN MISSED BY EVEN THE BEST TAX PREPARERS!!!**

Social Security Income

- 1099-SSA
- Not entirely taxable
 - Single, HOH, MFS
 - Income of <25K – NONE OF YOUR BENEFITS ARE TAXED
 - Income of 25K-34K – Up to 50% of your benefits are taxed
 - Income of >34K – 50%-85% of your benefits are taxed
 - Married Filing Jointly
 - Income of <32K – NONE OF YOUR BENEFITS ARE TAXED
 - Income of 32K-44K – Up to 50% of your benefits are taxes
 - Income of >44K – 50%-85% of your benefits are taxed

Social Security

- Can I lose some of my benefits?
 - MAYBE!!!
- Under Full Retirement Age (FRA)
 - Reduction of \$1 for every \$2 of earnings over limit
- Year of FRA
 - Reduction of \$1 for every \$3 of earnings over limit
- Month of FRA
 - 😊😊😊NO REDUCTION😊😊😊

Social Security

- Earnings Limitations
 - Under FRA
 - \$12,480
 - Year of FRA
 - \$33,240
 - Month of FRA
 - NO EARNINGS LIMIT

What is my FRA?

Worker Born	F.R.A.
1937	65 & 0 mo.
1938	65 & 2 mo.
1939	65 & 4 mo.
1940	65 & 6 mo.
1941	65 & 8 mo.
1942	65 & 10 mo.
'43-'54	66 & 0 mo.

Worker Born	F. R. A
1955	66 & 2 mo.
1956	66 & 4 mo.
1957	66 & 6 mo.
1958	66 & 8 mo.
1959	66 & 10 mo.
1960	67 & 0 mo.
>1960	67 & 0 mo.

State Pension Exclusion

- Some states allow exclusion of some pension income
- Check with your state of residence
- The exclusion can save you tax money
- This is missed by many taxpayers every year
- Consult a professional preparer!!!

State Pension Exclusion

- VA does not have a “pension exclusion”
- VA has an Age Deduction
- \$12,000 per taxpayer
- Over 65
- Single AGI < 50K
- Married Filing Joint AGI <75K

Other Income

- Gambling Winnings
- Jury Duty Pay
- Drug/Medical Trials
- Executor of Estate
- Fellowships
- Minister Allowance
- Rental of Personal Property

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To Itemize or Not To Itemize

- THAT IS THE QUESTION
- You have two choices
 - Standard Deduction
 - Itemized Deductions
- Standard Deduction:
 - Gov't determine amount
 - Uniform for all filers
 - Adjusts for inflation annually

Standard Deduction

Standard Deduction 07

Status	Deduction	If >65:	**If Blind:
MFJ/QW	\$10,700	Add \$2,100	Add \$1,050
Single	\$5,350	Add \$1,300	Add \$1,300
HOH	\$7,850	Add \$1,300	Add \$1,300
MFS	\$5,350	Add \$1,050	Add \$1,050

**Add Amount Per Blind Person



Standard Deduction

Standard Deduction 08

Status	Deduction	If >65:	**If Blind:
MFJ/QW	\$10,900	Add \$2,100	Add \$1,050
Single	\$5,450	Add \$1,350	Add \$1,350
HOH	\$8,000	Add \$1,350	Add \$1,350
MFS	\$5,450	Add \$1,050	Add \$1,050

**Add Amount Per Blind Person



Itemized Deductions

- Schedule A
- Medical Expenses
 - Long Term Care Insurance
 - Out of Pocket Prescriptions
 - Doctor and Dentist Visits
 - Subject to 7.5% Threshold
- Taxes
 - State and Local Income Tax
 - Sales Tax
 - Real Estate Taxes
 - Car Tax (VA Residents)

Itemized Deductions

- Interest Expenses
 - Mortgage on First and Second Home
 - One Million Dollar Limit Rules Apply
 - Points
 - Personal Mortgage Insurance (PMI)
 - Investment Interest Expenses
- Charity
 - Cash, Check, Charge
 - Non-Cash (GOOD CONDITION OR BETTER)
 - MUST HAVE RECEIPTS NO MATTER HOW S

Itemized Deductions

- Tax Preparation Fees
- Un-reimbursed Employee Expenses
- Investment/Brokerage Fees
- Safe Deposit Box Fees
- Gambling Losses
 - to extent of winnings
- Casualty Losses
 - Almost never get to claim!!!
- All Subject to 2% Threshold

Pre-Paid College Funds “529 Plans”

- Can be set up for any person
 - Grandchild
 - Great grandchild
 - Niece/nephew
 - Neighbor’s child
 - ANYONE
- Contributions usually deductible on state return
- There are limits
- Not every plan qualifies for tax deductions
- Distributions tax free is used for qualified higher education expenses

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Credits

- Foreign Tax Credit
- Hybrid Vehicle Credit
- Energy Efficient Home Improvement Credit
- Retirement Savings Credit
- Child Tax Credit
- Dependant Care Credit
- Education Credits
- Elderly/Disabled Credit

Credit for Elderly/Disabled

- Low income credit
- 65 years old or older OR permanently disabled
- AGI may not exceed:
 - Single, HOH, QW: \$17,500
 - MFJ (one spouse eligible): \$20,000
 - MFJ (both spouses eligible): \$25,000
 - MFS (lived apart ALL YEAR): \$12,500
- Reported on Schedule R

State/Local Property Tax Credits

- Offered to seniors
- Not just for low income
 - Middle income still could qualify
- Varies by state
- Not Automatic
- Usually must apply
- Can save you thousands
- Consult your tax preparer

Alternative Minimum Tax (AMT)

- Introduced in Tax Reform act of 1969
- Intended to target only 155 Rich Taxpayers
- Not Indexed for Inflation
- 23 Million Americans in 2007
- By 2010 1 in 5 taxpayers will get hit with AMT

AMT cont...

- AMT Code disallows deductions/exemptions
- Set 26% or 28% Rate after disallowed deductions
- AMT triggered by:
 - High Earned Income over \$100,000
 - Tax Exempt Interest Income
 - Large Dividends
 - Long Term Cap Gains
 - Accelerated Depreciation
 - Credits
 - High Personal Exemptions
 - High Itemized Deductions

Will I Get Targeted by AMT?

- AGI over 100K
- Interest Income
- Tax Exempt Interest (MUNI BONDS)
 - High Cap Gains
 - Dividends
 - High Deductions

There are 18 pages of AMT worksheets to figure out if you get hit with AMT!!!

CONSULT A PROFESSIONAL!!!



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Estimated Payments

- Owe more than \$1,000
- Pay Quarterly
 - 4/15
 - 6/15
 - 9/15
 - 1/15
- Keep good records
- Avoid Underpayment Penalty
- Safe Harbor (100% Current/110% Prior)

Estimated Tax Strategy

- Apply refunds
- Make State Payment before 12/31
- Can deduct in year paid!!!
- Hold off if danger of AMT

Q & A

THANK YOU FOR
COMING!!!

