



# MORE ON TAXES

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- The average person now lives 31 years longer than in 1850. We have to in order to get our taxes paid!
- And Virginia taxes us too!!



# TODAY'S TAX TOPICS

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**1. Virginia Tax Law**

**2. Organizing your tax records**

“with emphasis on senior issues”



# VIRGINIA TAXES

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- They are complicated!
- Little help is available
- Therefore many people pay too much
- Why?
- Because they are unaware of:
  - Allowable subtractions/deductions
  - Available credits
  - How to maximize the spouse tax adjustment



# VIRGINIA OVERVIEW

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**FEDERAL ADJUSTED GROSS INCOME (AGI)**

+ ADDITIONS

- **SUBTRACTIONS**

**= VIRGINIA AGI**

- DEDUCTIONS

- EXEMPTIONS

**= VIRGINIA TAXABLE INCOME**

x TAX TABLES

**= TAX**

- **SPOUSE TAX ADJUSTMENT**

- **CREDITS**

- **TAX ALREADY PAID**

**= TAX OWED/REFUND**

# ADDITIONS



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- **JUST ONE**

- **Interest** on State Obligations (Muni Bonds)
- Popular for those in higher tax brackets

- **NOTE**

- Federally exempt but taxable in VA
- Virginia bond interest is exempt in VA
- **Caution! Bond Funds** - VA portion of interest is exempt, rest taxable in VA

# SUBTRACTIONS



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- **AGE DEDUCTION** - Means tested
- **SOCIAL SECURITY BENEFITS** - if taxed federally
- **STATE TAX REFUND**
- **OTHER SUBTRACTIONS**
  - About 20 of them!
  - Entered on Schedule ADJ

# COMMON SCHEDULE ADJ SUBTRACTIONS



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- **Line 4 Interest on Treasuries**
- **Line 5 Disability Income (wages)**
- **Line 6: Two digit codes)**
  - **20 - CAPITAL GAINS FROM VA OBLIGATIONS**
  - **22 - RAILROAD RETIREMENT BENEFITS**
  - **24 - VA LOTTERY PRIZES (Up to \$600 each)**
  - **37 - UNEMPLOYMENT COMPENSATION**
  - **39 - GOVERNMENT EMPLOYEE INCOME**
  - and a dozen others such as:
  - **45 - AVIAN INFLUENZA COMPENSATION!**



# DEDUCTIONS

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- **STANDARD OR ITEMIZED**

- As per Federal Return
- If Itemizing subtract VA income tax
- May pay to elect itemization (VA Std Ded. is small)

- **EXEMPTIONS - \$930 pp (+\$800 if >65)**

- **OTHER DEDUCTIONS**

- About 12 of them!
- Entered on Schedule ADJ





# COMMON SCHEDULE ADJ DEDUCTIONS

(Three Digit Codes)

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- **101 - Child & Dependent Care Expense**
  - Only if Federally eligible
  - Expense **not** credit
- **102 - Foster Care**(\$1000/child)
- **104 - College savings plan contributions**  
(up to \$2000 if < 70)
- **105 - Teacher Education** (20% of cost)
- **106 - LTC premiums** (not incl on Sch A)
- **109 - Sales Tax** on Energy Savings Equip.  
(20% up to \$500/\$1000MFJ)
- **111 - Charitable mileage** (18 vs 14c)



# TAX COMPUTATION

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- **FAGI + ADD - SUBTR = VAGI**
- **VAGI - DEDUCTIONS = VTI**
- **VTI x TAX RATE = VA TAX**

***EXCEPT:***

- **If Tax payer is married there may be a “Spouse Tax Adjustment”**

# SPOUSE TAX ADJUSTMENT



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- **PRINCIPLE:** Taxed as if filing separately
- **EFFECT:** Lowers the tax bracket
- **BENEFIT:** \$259 max
- **MAXIMIZE:** By equalizing incomes:
  - **Joint income** to lower income spouse
  - **Joint deductions** to higher income spouse



# CREDITS

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- **THERE ARE 25 POTENTIAL CREDITS!**
- **BUT MAINLY BUSINESS OR FARMING RELATED**
- **WORTH CHECKING:**
  - Credit for Low Income or 20% of Federal EIC
  - Credit for tax paid to another State (Sch OSC)
  - **Certain** Political Contributions (\$25/50 max)
  - Credit for **new** LTC insurance policies (unless deducted)



# LONG TERM CARE CREDIT

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- For first 12 months of policy only
- 15% of **premiums** paid:
  - During tax year
  - Only if no Federal or Virginia **deduction** claimed
- Can carry-over unused credit for 5 years
- Can claim deduction in following years
- Need to evaluate credit vs deduction



# IN CONCLUSION

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- **VIRGINIA TAX LAWS ARE COMPLICATED**
- **YOU CAN REDUCE YOUR VIRGINIA TAXES BY:**
  - **Not missing Subtractions and Deductions**
  - **Optimizing the Spouse Tax Adjustment**
  - **Taking advantage of Credits**
- **FINAL CAUTION - PENALTY THRESHOLD IS LOW (\$150)**
- **QUESTIONS OR COMMENTS ON VIRGINIA TAXES????**



# **ORGANIZATION OF YOUR TAX RECORDS**

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**THE PROVERBIAL SHOEBOX**

**or**

**IS THERE A BETTER WAY?**

# THREE TYPES OF RECORDS



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## **1. ESSENTIAL FOR FILING**

- Required by the IRS

## **2. DESIRABLE FOR FILING**

- Needed to maximize deductions & credits

## **3. RETENTION DOCUMENTS**

- Maybe required in the future







# ABOUT THESE FORMS

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## THEY:

- **Vary in size and design**
  - Don't be confused
- **Contain information other than income**
  - Don't overlook anything
- **Have been sent to the IRS**
  - Don't ignore anything

# OTHER FILING ESSENTIALS



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- **UN-NUMBERED FORMS OR RECORDS:**
  - **Alimony received**
  - **Self Employment Income**
  - **Prizes and Awards**



# DESIRABLE FOR FILING

## (To your benefit)

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- **Adjustments to Income**
  - Alimony paid
  - IRA contributions
  - Student Loan Interest
- **Itemized Deductions (Schedule A)**
  - Medical expenses
  - Real Estate Taxes
  - VA Taxes paid
  - Mortgage interest (Form 1098)
  - Charitable contributions (Form 1098C for cars)
  - Other allowable expenses
- **Virginia Subtractions & Deductions**



# RETENTION DOCUMENTS

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## ■ WHY RETAIN?

- To help with next year's return
- To reduce next year's taxes e.g. loss carryovers
- You may want to amend a past return
- You may be audited!!
- You need to know the basis for future asset sales

## ■ HOW LONG?

- “For as long as they are important for the federal tax law” (IRS Publication 17)



# STATUTE OF LIMITATIONS

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- **3 YEARS** from date of filing - “in general”
- **6 YEARS** - if income unreported by > 25%
- **FOREVER** - if a return is false or fraudulent

***YOUR CHOICE!***

**At least retain a copy of your return and all supporting documents for 3 years**

# PROPERTY BASIS RECORDS



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- **“BASIS” IS INVESTMENT IN A PROPERTY**
- **NEEDED TO FIGURE YOUR GAIN OR LOSS WHEN YOU SELL**
- **COMPLICATIONS**
  - **Time:** May be many years between purchase and sale
  - **Splits:** Must be accounted for
  - **Reinvested dividends:** must be included
  - **Homes:** Postponed pre-1997 gains reduce basis
- **KEEP THESE RECORDS FOREVER!**

# ORGANIZING YOUR RECORDS



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- **IT'S A PERSONAL THING**
- **THROW OUT THE SHOEBOX AND USE FILE FOLDERS**
- **DISTINGUISH BETWEEN TAX AND OTHER FINANCIAL RECORDS e.g. account statements**





# SUGGESTIONS

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- **A FOLDER FOR THE NEW TAX YEAR:**
  - Notes from prior year
  - Estimated Tax coupons & payments
  - Prior year carryovers e.g. unused cap losses
  - Infrequent receipts e.g. real estate tax, car tax
  - January stuff - W-2's, 1099's, etc.
- **CHARITABLE CONTRIBUTIONS:**
  - Envelope for current year receipts
  - Diary entry for charitable mileage
- **MEDICAL RECORDS FOLDER(S)**
  - Separate

# SUGGESTIONS CONTINUED



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- **A folder for each Home: (Closing documents, cost of improvements and associated dates)**
- **Folders for Stocks, Bonds or Funds:**
  - **Original purchase date and cost**
  - **For Stocks:**
    - **Details of splits or additional stock received**
    - **Dates and number of shares sold**
  - **For Mutual Funds:**
    - **Current year monthly statements**
    - **At year end keep December statement, destroy the rest**
    - **Use fund's average cost basis**



# FINALLY

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- **AFTER FILING, PLACE IN THAT YEAR'S TAX FOLDER:**
  - A copy of return (all forms)
  - Copies of all Income forms (W-2's, 1099's, etc)
  - All support documents
- **AFTER 3 YEARS MOVE TO BASEMENT**
- **ENSURE YOUR SPOUSE KNOWS WHERE ALL YOUR TAX DOCUMENTS ARE!**