MORE ON TAXES

- 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

1. Virginia Tax Law

2. Organizing your tax records

“with emphasis on senior issues”
VIRGINIA TAXES

- 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

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

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

- 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

- 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

- 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)

- 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)
  (20% up to $500/$1000MFJ)
- 111 - Charitable mileage (18 vs 14c)
TAX COMPUTATION

- 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

- **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

- 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

- 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

- 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

THE PROVERBIAL SHOEBOX

or

IS THERE A BETTER WAY?
THREE TYPES OF RECORDS

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
ESSENTIAL FILING DOCUMENTS

IRS NUMBERED INCOME FORMS

- W-2  
  Wages
- W-2G  
  Gambling Winnings
- 1099’s
  - Interest  
    1099 INT & 1099 OID
  - Dividends  
    1099 DIV
  - Sale of Stock  
    1099 B
  - Sale of Home  
    1099 S
  - Retirement Income  
    1099 R, RRB 1099 & SSA 1099
  - Unemployment/Refund  
    1099G
  - Odds & Ends  
    1099 MISC
- K-1’s  
  Partnerships and Trusts
ABOUT THESE FORMS

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

UN-NUMBERED FORMS OR RECORDS:

- Alimony received
- Self Employment Income
- Prizes and Awards
DESIRABLE FOR FILING
(To your benefit)

- **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

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

- 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

“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

- 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

- 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

- 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

• 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!