

TAX PREPARATION SIMPLIFIED

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- Today:
 - Federal taxes

- Next Week:
 - Virginia Taxes
 - Tax record keeping



WHAT'S NEW?

- The usual inflation adjustments
- +
■ The American Recovery and Reinvestment Act!
- +
■ Other new legislation



ARRA

- A New Exemption
- A New Deduction
- Five New Credits
- Two Increased Credits



NEW EXEMPTION

- Unemployment Compensation
- First \$2400 excluded from gross income



EXPANDED STANDARD DEDUCTION

- No longer “standard”
- Can include:
 - Some Real Estate taxes
 - Introduced last year
 - \$500 (S), \$1000 (MFJ)
- **And** sales tax on new motor vehicles
 - Max purchase price \$49500
 - Phased out for AGI > \$125/250K
- Claimed on Schedule L (new)



NEW RETIREE CREDITS

- Government Retiree Credit
 - \$250
- Economic Recovery Payment
 - \$250
 - SSA, RRB & VA beneficiaries
 - Not really a credit - you already have it!
- Both are refundable
- Entered on Schedule M (new)



AMERICAN OPPORTUNITY CREDIT

- An education credit
- Hope credit expanded (or “New Hope!”)
 - Increased to \$2500 per student (vs \$1800)
 - Four (vs two) years post-secondary education
 - Up to 40% is refundable
- Generally better than Lifetime Learning Credit or Tuition & Fees Deduction



MAKING WORK PAY CREDIT

- 6.2% of earned income
- \$400 pp max
- Phased out for AGI > \$75/150K
- Reduced by \$250 for ESP or GRC recipients
- Refundable
- Claimed on Schedule M (new)



NON-BUSINESS ENERGY PROPERTY CREDIT

- Reinstated for 2009. Covers:
 - Insulation, doors, windows, heating/cooling systems
 - Not installation
- 30% of cost up to \$1500
- Must be “qualified” - certificate required
- Not to be confused with “Residential Energy Efficient Property Credit”!
 - Not new
 - Covers solar, geothermal, wind
- Or “Plug-in Electric Vehicle Credit”



INCREASED CREDITS

- EIC
 - Extra credit for 3 children (max \$5600 vs \$4800)
 - Income threshold raised to \$43000 from \$41000
 - Temporary

- ACTC
 - Min Earned income reduced to \$3000 from \$8500



WORKER, HOMEOWNERSHIP & BUSINESS ASSISTANCE ACT

- Expands “First Time Homebuyer Credit”
 - Extends deadline to April 30, 2010
 - \$8000 max
 - Phased out for AGI’s between \$125/145K (S) and \$225/245K (MFJ)
 - Max home price \$800K
 - Must attach Settlement Statement to return
- Adds a “Long Time Resident Credit”
 - \$6500 max
 - Must be principle residence for 5 of last 8 years



OTHER NEW LEGISLATION

- Limits on exclusion of gain on selling home
- Definition of “Qualifying Child”
 - Child must be younger than you!
 - AGI of non-parent claiming a child must exceed parent’s AGI
- Can use refund to buy Savings Bonds



SOME SENIOR-RELATED TAX ISSUES

- Filing Status
- Interest & Dividends
- Capital Gains including Sale of Home
- IRA Distributions
- Pensions
- Social Security
- Itemized Deductions
- Estimated Taxes & Penalties

Label

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

Label HERE

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. Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.
You must enter your SSN(s) above.

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 Yourself. If someone can claim you as a dependent, do not check box 6a
6b Spouse
6c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If qualifying child for child tax credit (see page 17)
Boxes checked on 6a and 6b. No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see page 18)
Dependents on 6c not entered above
Add numbers on lines above

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.

Table with 2 columns: Description and Amount. Rows include: 7 Wages, salaries, tips, etc. Attach Form(s) W-2; 8a Taxable interest; 8b Tax-exempt interest; 9a Ordinary dividends; 9b Qualified dividends; 10 Taxable refunds, credits, or offsets of state and local income taxes; 11 Alimony received; 12 Business income or (loss); 13 Capital gain or (loss); 14 Other gains or (losses); 15a IRA distributions; 15b Taxable amount; 16a Pensions and annuities; 16b Taxable amount; 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc.; 18 Farm income or (loss); 19 Unemployment compensation; 20a Social security benefits; 20b Taxable amount; 21 Other income; 22 Add the amounts in the far right column for lines 7 through 21. This is your total income.

Adjusted Gross Income

Table with 2 columns: Description and Amount. Rows include: 23 Educator expenses; 24 Certain business expenses of reservists, performing artists, and fee-basis government officials; 25 Health savings account deduction; 26 Moving expenses; 27 One-half of self-employment tax; 28 Self-employed SEP, SIMPLE, and qualified plans; 29 Self-employed health insurance deduction; 30 Penalty on early withdrawal of savings; 31a Alimony paid; 31b Recipient's SSN; 32 IRA deduction; 33 Student loan interest deduction; 34 Tuition and fees deduction; 35 Domestic production activities deduction; 36 Add lines 23 through 31a and 32 through 35; 37 Subtract line 36 from line 22. This is your adjusted gross income.

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 8885 **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

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

- **Why is Filing Status important?**
- **Affects:**
 - Tax
 - Standard Deduction
 - Eligibility for Credits
- **More than one may apply**
- **One of most common errors**



FILING STATUS OPTIONS

1. Single
2. Married Filing Jointly
 - Best
 - Valid if spouse died during TY
3. Married Filing Separately - bad!
4. Head of Household
 - Better
 - Single **with a qualifying dependent**
5. Qualifying Widow(er)
 - Spouse died during prior two years
 - **With a qualifying dependent child**



INTEREST & DIVIDENDS

- 1099-INT, 1099-DIV or 1099-OID
- Watch for:
 - Muni Bond interest - tax exempt
 - Savings Bond interest - If used for education may be tax exempt
 - Treasury Bond interest - taxable



CAPITAL GAINS

- Broker's Statements (1099-B) can be confusing
 - May contain reportable income other than CG's
 - Short and Long Term gains
 - Basis (hopefully!)
- Inherited Stock
- Capital Gain Distributions (Check 1040 line 13 Box)
- Loss Carryover (Can deduct \$1500/3000/year)



SALE OF HOME

- Basis = Cost + Improvements
- Can exclude \$250/500K of gain if:
 - Main home
 - Ownership and use tests met
 - If spouse dies and house sold within 2 years, \$500K exclusion applies
- Report net gain (if any) on Sch D



FORECLOSURES

- Form 1099-A received
- Must report on Sch D
- If debt cancelled, Form 1099-C is received
- Complete Form 982 to exclude from income



IRA DISTRIBUTIONS

- Form 1099-R received
- Roth IRA distributions not taxable
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- For other codes read instructions
 - May not be taxable
 - May be a penalty
- Remember RMD's



PENSIONS

- Form: 1099-R, RRB-1099 or CSA-1099
- Usually “Taxable Amount” shown in Box 2
- If not, and if contributions made:
 - Use “Simplified Method” worksheet if pension started after July 1, 1986
 - If not use “General Rule” (Pub 939)

SOCIAL SECURITY & RELATED BENEFITS



- Social Security
 - Reported on SSA-1099
- Railroad Retirement Tier 1
 - Reported on RRB-1099
 - Equivalent to Social Security
 - Same rules as Social Security
- Up to 85% may be taxable - use worksheet
- Note insurance premiums & tax withholdings



ITEMIZED DEDUCTIONS

Schedule A

- Medical Expenses
- Certain Taxes
- Interest paid
- Gifts to Charity
- Miscellaneous Expenses
- Limited for AGI's > \$83/167K



Medical Expenses

- Expenses must be:
 - Qualified - see instructions
 - Un-reimbursed
 - Paid by and for TP, spouse or dependents
- Include:
 - Medical and dental insurance premiums
 - LTC premiums up to age related limit
- But only to extent they exceed 7.5% of AGI



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)



DEDUCTIBLE INTEREST

- Home Mortgage:
 - Interest reported on form 1098
 - Points on new purchase
 - Ratable points on refinancing
 - Qualified Mortgage Insurance premiums
- Investment Interest paid



GIFTS TO CHARITY

- Cash:
 - Receipts or bank records required
- Non-cash contributions require:
 - Receipt
 - Form 8283 if over \$500
 - Appraisal if over \$5000
 - Form 1098-C if a car (some exceptions)
 - Clothing, etc. - Must be in “good or better” condition
- Out-of-pocket expense:
 - Travel @ 14¢/mile
 - Tolls, parking, can be included

MISCELLANEOUS DEDUCTIONS



- To the extent they exceed 2% of AGI:
 - Tax Preparation Fees
 - Certain investment expenses
 - Other - See Schedule A Instructions
- Other Miscellaneous Deductions:
 - Gambling losses up to extent of winnings



CREDITS

- Foreign Tax Credit - form 1116 if $> \$300/600$
- Credit for the Elderly - no-one qualifies!
- We have discussed:
 - New retiree credits
 - American Opportunity Credit (education)
 - Making Work Pay Credit
 - Energy Credits
 - Home Buyers Credit



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
- Consider quarterly estimated tax payments



FINALLY BEWARE THE AMT!

- 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