



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
- New for 2009 - 529 plan contribution limit



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 (<\$15000)**
 - 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 - **Contributions to Virginia College Savings Plan**
(Up to **\$4000** if < 70, unlimited if > 70)
- 105 - **Teacher Education** (20% of cost)
- 106 - **LTC premiums** (not incl on Sch A)
- 109 - 20% of **Sales Tax** on Energy Savings Equip. (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



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
- Sentimental value!

■ 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 6 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 other support documents
- **AFTER 3 YEARS:**
 - **MOVE ESSENTIALS TO BASEMENT**
 - **SHRED THE REST**
- **ENSURE YOUR SPOUSE KNOWS WHERE ALL YOUR TAX DOCUMENTS ARE!**