TAX PREPARATION
SIMPLIFIED
Derek Cundill

- 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
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
Form 1040  
U.S. Individual Income Tax Return

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

**Presidential Election Campaign**  
Check box if you or your spouse if filing jointly, went $3 to go to 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  
If more than one spouse, see page 17.  

**Exemptions**  
6a Exemptions claimed.  
   - If no dependents claimed.  
   - If no dependents claimed.  
6b Total number of dependents claimed.  
If more than one dependent, see page 17.  

**Income**  
7 Wages, salaries, tips, etc. Attach Form W-2  
8a Taxable interest. Attach Schedule B if required  
8b Tax-exempt interest. Do not include on line 8a.  
9a Ordinary dividends. Attach Schedule B if required  
9b Qualifying dividends (see page 21)  
10 Taxable refunds, credits, or offsets of estate and gift tax (see page 22)  
11 Alimony received  
12 Business income or loss. Attach Schedule C or C-EZ  
13 Capital gain or loss. Attach Form 4797 or 8949 if required.  
14 Other gains or (losses). Attach Form 4797 or 8949 if required.  
15a IRA distributions  
15b Taxable amount (see page 23)  
16a Pensions and annuities  
16b Taxable amount (see page 24)  
17 Rents or other income (see page 21)  
18 Farm income or loss. Attach Schedule F  
19 Unemployment compensation  
20a Social security benefits  
20b Taxable amount (see page 25)  
21 Other income. List type and amount (see page 28)  
22 Add the amounts in the far right column for lines 7 through 21. This is your total income.  

**Adjusted Gross Income**  
23 Educator expenses (see page 28)  
24 Certain business expenses of farmers, performing artists, and tax-exempt government officials. Attach Form 2668 or 2680-EZ  
25 Health savings account deduction. Attach Form 8889  
26 Moving expenses. Attach Form 3903  
27 Self-employment tax. Attach Schedule SE  
28 Self-employed SEP, SIMPLE, and qualified plans  
29 Self-employed health insurance deduction (see page 20)  
30 Penalty on early withdrawal of savings  
31a Alimony paid to parents' child  
31b IRA deduction (see page 30)  
32 Student loan interest deduction (see page 33)  
33 Certain expenses of the aged. Attach Form 4972  
34 Social security benefits. Attach Form 8812  
35 Certain production activities deduction. Attach Form 8831  
36 Add lines 23 through 35a and 36 through 35  
37 Subtract line 36 from line 22. This is your adjusted gross income.
<table>
<thead>
<tr>
<th>Description</th>
<th>Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount from line 37 (adjusted gross income)</td>
<td></td>
</tr>
<tr>
<td>Check (\square) You were born before January 2, 1944, (\square) Blind</td>
<td></td>
</tr>
<tr>
<td>Total taxes</td>
<td></td>
</tr>
<tr>
<td>If: (\square) Spouse was born before January 2, 1944, (\square) Blind</td>
<td></td>
</tr>
<tr>
<td>Deduction</td>
<td></td>
</tr>
<tr>
<td>Check if standard deduction includes real estate taxes or disaster losses</td>
<td></td>
</tr>
<tr>
<td>Itemized deductions (from Schedule A) or your standard deduction (see left margin)</td>
<td></td>
</tr>
<tr>
<td>Subtract line 40 from line 38</td>
<td></td>
</tr>
<tr>
<td>If line 38 is over $11,000, or you provided housing to a Midwestern displaced individual, see page 54. Otherwise, multiply $2,500 by the total number of exemptions claimed on line 6d.</td>
<td></td>
</tr>
<tr>
<td>Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-</td>
<td></td>
</tr>
<tr>
<td>Tax (see page 35). Check if any tax is from: (\square) Form(s) 4814 (\square) Form 4972</td>
<td></td>
</tr>
<tr>
<td>Alternative minimum tax (see page 30). Attach Form 6251</td>
<td></td>
</tr>
<tr>
<td>Add lines 44 and 45</td>
<td></td>
</tr>
<tr>
<td>Foreign tax credit. Attach Form 1116 if required</td>
<td></td>
</tr>
<tr>
<td>Credit for child and dependent care expenses. Attach Form 2461</td>
<td></td>
</tr>
<tr>
<td>Credit for the elderly or disabled. Attach Schedule R</td>
<td></td>
</tr>
<tr>
<td>Education credits. Attach Form 8965</td>
<td></td>
</tr>
<tr>
<td>Retirement savings contributions credit. Attach Form 4968</td>
<td></td>
</tr>
<tr>
<td>Child tax credit (see page 40). Attach Form 8901 if required</td>
<td></td>
</tr>
<tr>
<td>Credit from Form(s) a (\square) 8965 b (\square) 8969 c (\square) 8969</td>
<td></td>
</tr>
<tr>
<td>Other credits from Form(s) a (\square) 8980 b (\square) 8901 c (\square) 8969</td>
<td></td>
</tr>
<tr>
<td>Add lines 47 through 54. Those are your total credits.</td>
<td></td>
</tr>
<tr>
<td>Subtract line 55 from line 46. If line 55 is more than line 46, enter -0-</td>
<td></td>
</tr>
<tr>
<td>Self-employment tax. Attach Schedule SE</td>
<td></td>
</tr>
<tr>
<td>Unreimbursed social security and Medicare tax from Form(s): (\square) 4127</td>
<td></td>
</tr>
<tr>
<td>(\square) 8919</td>
<td></td>
</tr>
<tr>
<td>Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 8969 if required</td>
<td></td>
</tr>
<tr>
<td>Additional taxes: (\square) ADO payments (\square) Household employment taxes Attach Schedule 11</td>
<td></td>
</tr>
<tr>
<td>Add lines 56 through 60. This is your total tax.</td>
<td></td>
</tr>
<tr>
<td>Federal income tax withheld from Forms W-2 and 1006</td>
<td></td>
</tr>
<tr>
<td>2006 estimated tax payments and amount applied from 2005 return</td>
<td></td>
</tr>
<tr>
<td>Earned income credit (EIC)</td>
<td></td>
</tr>
<tr>
<td>Non-taxable combat pay addition</td>
<td></td>
</tr>
<tr>
<td>Excess social security and hire 1 REIT tax withheld (see page 61)</td>
<td></td>
</tr>
<tr>
<td>Additional child tax credit. Attach Form 8962</td>
<td></td>
</tr>
<tr>
<td>Amount paid with request for extension to file (see page 61)</td>
<td></td>
</tr>
<tr>
<td>Credits from Form(s) a (\square) 8452 b (\square) 8458 c (\square) 8801 d (\square) 8866</td>
<td></td>
</tr>
<tr>
<td>First-time homebuyer credit. Attach Form 5622</td>
<td></td>
</tr>
<tr>
<td>Recovery rebate credit (see worksheet on pages 62 and 63)</td>
<td></td>
</tr>
<tr>
<td>Add lines 62 through 70. Those are your total payments</td>
<td></td>
</tr>
<tr>
<td>If line 71 is more than line 61, subtract line 61 from line 71. This is the amount you receive</td>
<td></td>
</tr>
<tr>
<td>Amount of line 72. If you want refunded to you. If Form 8665 is attached, check here (\square)</td>
<td></td>
</tr>
<tr>
<td>Number of line 22. You were applied to your 2006 estimated tax (\square) 72</td>
<td></td>
</tr>
<tr>
<td>Amount you owe. Subtract line 71 from line 61. For details on how to pay, see page 55</td>
<td></td>
</tr>
<tr>
<td>Estimated tax penalty (see page 65)</td>
<td></td>
</tr>
<tr>
<td>Do you want to allow another person to discuss this return with the IRS (see page 60)? (\square) Yes. Complete the following (\square) No</td>
<td></td>
</tr>
<tr>
<td>Designee name (\square) Phone (\square)</td>
<td></td>
</tr>
<tr>
<td>Personal Identification number (\square)</td>
<td></td>
</tr>
<tr>
<td>Sign Here (\square) Joint return? See page 15.</td>
<td></td>
</tr>
<tr>
<td>Your signature Keep a copy for your records. (\square) Spouse's signature if a joint return, both must sign. (\square) Date (\square) Spouse's occupation</td>
<td></td>
</tr>
<tr>
<td>Your date (\square) Your occupation (\square) Your daytime phone number (\square)</td>
<td></td>
</tr>
<tr>
<td>Paid Preparer's Use Only (\square) Buyer's Social Security number (\square) Date (\square) Filing status (\square)</td>
<td></td>
</tr>
</tbody>
</table>
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 hardest thing in the world to understand is income tax!

Albert Einstein