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
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
- 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!