

Today's Tax Tips

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Did You Know?

- IRS Code – Over 75,000 Pages
- Over 720 Forms
- 101,000 Employees
 - Two times size of CIA
 - Five times size of FBI
- 1040-EZ – 36 Pages of Instructions
- Average Family Spends 38% of Income on Taxes



Do I Need To File?

- Typically yes
- If you will owe taxes
- Refund
- Income reported to IRS or State
- Self employment income over \$400
- Report gifts given
- Carry over losses



Filing Status

- Single
- Head of Household (single with dependent child)
- Married Filing Jointly
(TYPICALLY THE BEST)
- Married Filing Separately
- Qualifying Widow(er)



Special Situations for Seniors (>65)

- Higher Standard Deduction
 - \$13,000 (MFJ/QW)
 - \$8,150 (Single)
 - \$10,700 (HOH)
 - \$6,550 (MFS)
- Higher Deduct. for LTC Premiums (\$290-\$3680)
- Federal Credits for Seniors or the disabled
- State and Local Property Tax Credits



Interest Income

- Schedule B
- 1099-INT
- Savings account
- Certificate of deposit (CD)
- Original issue discount (OID)
- Tax exempt interest
 - Must be reported
 - Could be exempt on state level as well
- Interest paid on a private loan



Dividends

- Schedule B
- 1099-DIV
- Ordinary
 - Taxed at normal income tax rate
- Qualified
 - 5%-15%

State Tax Refunds

- 1099-G
- Are they taxable?
- Why are they taxable?

Capital Gains

- Schedule D
- Usually reported to you on 1099-B
- Profit made when you sell ANYTHING!!!
 - Stocks
 - Investments
 - Homes
- Gains on personal property (cars, jewelry, clothing)

Basis

- Basis – What you paid
- Gift – Donor's basis
- Inherited – Fair Market Value on date of passing

Capital Gains

- Long Term > 1 year
 - 5%-15%
- Short Term < 1 year
 - Your tax rate up to 35%
- Losses offset gains
- \$3,000 limit (\$1,500 MFS)
- Carry forward losses until used up

Sale of Home

- IRS Section 121
- MUST BE PRIMARY RESIDENCE
- Profit Exclusion
 - \$250,000 (Single)
 - \$500,000 (Married)
- 2 of 5 years prior to sale
- Can be done every two years
- Exceptions to time requirement
 - Job Change
 - Medical Issues
 - Financial Difficulty
 - Death of Dependant



Sale of Home

NEW LAW AS OF 12/20/07!!!

- If spouse passes away:
 - Have 2 years to sell
 - Get \$500,000 exclusion
 - This alleviates pressure to sell right away

PRESTON RULE!!!

- Bought house <1977
- Paid for by one spouse's income
- Surviving spouse gets stepped up basis
 - FULL FAIR MARKET VALUE ON DAY OF SPOUSE'S PASSING

Pension Income

- 1099-R
- IRA Distributions
 - Traditional (taxable)
 - Roth (non-taxable)
 - SEP/SIMPLE (taxable)
- 401K or other retirement accounts
 - Typically all taxable



IRA/401(k)

- Don't forget your RMD
 - Required Min. Distribution
 - Over 70 1/2
- Must take by April 1 of year after 70 1/2
- Oops...50% Penalty!!!
- Can direct RMD to IRS Recognized Charity
 - 100K limit per taxpayer
 - Extended for 2009



Other Types of Retirement Pay

- Annuity
- Disability
- Railroad Retirement
- Military Retirement
- Federal Gov't Pension
- State/Local Gov't Pension



Federal Gov't Pension

- Taxable
- Make sure you withhold taxes!!!
- Not 100% taxable

Social Security Income

- 1099-SSA
- Not entirely taxable



State Pension Exclusion

- VA does not have a “pension exclusion”
- VA has an Age Deduction
- \$12,000 per taxpayer
- Over 65
- Single AGI < 50K
- Married Filing Joint AGI <75K



To Itemize or Not To Itemize

- You have two choices
 - Standard Deduction
 - Itemized Deductions
- Standard Deduction:
 - Gov't determined amount
 - Uniform for all filers
 - Adjusts for inflation annually
 - Can also deduct \$500/\$1000 in Real Estate tax...
 - And sales tax on purchase of a new car



Itemized Deductions

- Schedule A
- Medical Expenses
 - Long Term Care Insurance
 - Out of Pocket Prescriptions
 - Doctor and Dentist Visits
 - Subject to 7.5% Threshold
- Taxes
 - State and Local Income Tax
 - Sales Tax
 - Real Estate Taxes
 - Car Tax (VA Residents)



Itemized Deductions

- Interest Expenses
 - Mortgage on First and Second Home
 - One Million Dollar Limit Rules Apply
 - Points
 - Personal Mortgage Insurance (PMI)
 - Investment Interest Expenses
- Charity
 - Cash, Check, Charge
 - Non-Cash (GOOD CONDITION OR BETTER)
 - MUST HAVE RECEIPTS!
- Miscellaneous Deductions



Pre-Paid College Funds “529 Plans”

- Can be set up for any person
 - Grandchild...BEST!!! Why?
 - Great grandchild
 - Niece/nephew
 - Neighbor’s child
 - ANYONE
- Contributions may be deductible on state return
- There are limits
- Not every plan qualifies for tax deductions
- Distributions tax free if used for qualified higher education expenses



Alternative Minimum Tax (AMT)

- Introduced in Tax Reform act of 1969
- Intended to target only 155 Rich Taxpayers
- Not Indexed for Inflation
- 30 Million Americans in 2009
- By 2010 1 in 5 taxpayers will get hit with AMT



AMT cont...

- AMT Code disallows deductions/exemptions
- Set 26% or 28% Rate after disallowed deductions
- AMT triggered by:
 - Tax Exempt Interest Income
 - Large Dividends
 - Long Term Cap Gains
 - Accelerated Depreciation
 - High Personal Exemptions
 - High Itemized Deductions

Estimated Payments

- Owe more than \$1,000
- Pay Quarterly
 - 4/15
 - 6/15
 - 9/15
 - 1/15
- Keep good records
- Avoid Underpayment Penalty
- Safe Harbor (100% Current/110% Prior)

