

TAX PREPARATION SIMPLIFIED

Derek Cundill

- Today:
 - Federal taxes

- Next Week:
 - Virginia Taxes
 - Tax record keeping

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

For the year Jan. 1-Dec. 31, 2008, or other tax year beginning _____, 2008, ending _____, 20

Your first name and initial _____ Last name _____

If a joint return, spouse's first name and initial _____ Last name _____

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. _____

OMB No. 1545-0074

Your social security number _____

Spouse's social security number _____

You must enter your SSN(s) above.

Checking a box below will not change your tax or refund.

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

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

6a Yourself. If someone can claim you as a dependent, do not check box 6a

b Spouse

| c Dependents: | | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) <input type="checkbox"/> If qualifying child for child tax credit (see page 17) |
|----------------|-----------|--|-------------------------------------|---|
| (1) First name | Last name | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

If more than four dependents, 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

d Total number of exemptions claimed 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.

| | | |
|-----|---|-----|
| 7 | Wages, salaries, tips, etc. Attach Form(s) W-2 | 7 |
| 8a | Taxable interest. Attach Schedule B if required | 8a |
| b | Tax-exempt interest. Do not include on line 8a | 8b |
| 9a | Ordinary dividends. Attach Schedule B if required | 9a |
| b | Qualified dividends (see page 21) | 9b |
| 10 | Taxable refunds, credits, or offsets of state and local income taxes (see page 22) | 10 |
| 11 | Alimony received | 11 |
| 12 | Business income or (loss). Attach Schedule C or C-EZ | 12 |
| 13 | Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> | 13 |
| 14 | Other gains or (losses). Attach Form 4797 | 14 |
| 15a | IRA distributions | 15a |
| b | Taxable amount (see page 23) | 15b |
| 16a | Pensions and annuities | 16a |
| b | Taxable amount (see page 24) | 16b |
| 17 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | 17 |
| 18 | Farm income or (loss). Attach Schedule F | 18 |
| 19 | Unemployment compensation | 19 |
| 20a | Social security benefits | 20a |
| b | Taxable amount (see page 26) | 20b |
| 21 | Other income. List type and amount (see page 28) | 21 |
| 22 | Add the amounts in the far right column for lines 7 through 21. This is your total income | 22 |

Adjusted Gross Income

| | | |
|-----|--|-----|
| 23 | Educator expenses (see page 28) | 23 |
| 24 | Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ | 24 |
| 25 | Health savings account deduction. Attach Form 8889 | 25 |
| 26 | Moving expenses. Attach Form 3903 | 26 |
| 27 | One-half of self-employment tax. Attach Schedule SE | 27 |
| 28 | Self-employed SEP, SIMPLE, and qualified plans | 28 |
| 29 | Self-employed health insurance deduction (see page 29) | 29 |
| 30 | Penalty on early withdrawal of savings | 30 |
| 31a | Alimony paid | 31a |
| b | Recipient's SSN | |
| 32 | IRA deduction (see page 30) | 32 |
| 33 | Student loan interest deduction (see page 33) | 33 |
| 34 | Tuition and fees deduction. Attach Form 8917 | 34 |
| 35 | Domestic production activities deduction. Attach Form 8903 | 35 |
| 36 | Add lines 23 through 31a and 32 through 35 | 36 |
| 37 | Subtract line 36 from line 22. This is your adjusted gross income | 37 |



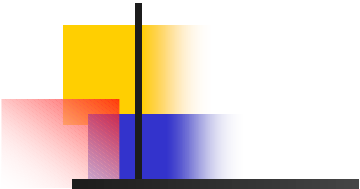
INCOME

**ADJUST-
MENTS**

DEDUCTIONS

CREDITS

| | | | | | |
|--|--|--|---|---|------------------------|
| Tax and Credits | | 38 | Amount from line 37 (adjusted gross income) | 38 | |
| 39a | | Check <input type="checkbox"/> You were born before January 2, 1944, <input type="checkbox"/> Blind. Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1944, <input type="checkbox"/> 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 <input type="checkbox"/> | | | |
| c | | Check if standard deduction includes real estate taxes or disaster loss (see page 34) ▶ 39c <input type="checkbox"/> | | | |
| 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 <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> 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 <input type="checkbox"/> 8396 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 5695 | | 53 | |
| 54 | | Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> | | 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 <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 | | 58 | |
| 59 | | Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required | | 59 | |
| 60 | | Additional taxes: a <input type="checkbox"/> AEIC payments b <input type="checkbox"/> Household employment taxes. Attach Schedule H | | 60 | |
| 61 | | Add lines 58 through 60. This is your total tax | | 61 | |
| Payments | | 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 <input type="checkbox"/> 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 <input type="checkbox"/> 2439 b <input type="checkbox"/> 4136 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 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 | | 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 ▶ <input type="checkbox"/> | | 73a | |
| b | | Routing number <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings | | | |
| d | | Account number <input type="text"/> ▶ | | | |
| 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)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No | | | |
| Designee's name ▶ | | Phone no. ▶ () | Personal identification number (PIN) ▶ <input type="text"/> | | |
| 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 <input type="checkbox"/> | Preparer's SSN or PTIN |
| Firm's name (or yours if self-employed), address, and ZIP code ▶ | | EIN | | Phone no. () | |



PAYMENTS

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

If you have a qualifying child, attach Schedule EIC.



A CONFUSING YEAR

- Due to congressional inaction:
 - The Estate Tax expired
 - The AMT kicked in for millions
 - Many deductions disappeared
 - Many credits lapsed
- Due to December congressional action:
 - Estate taxes became more confused!
 - The AMT was patched
 - Most deductions & credits were reinstated
 - Filing of many returns will be delayed



THE 2010 TAX RELIEF ACT

December 17, 2010

- Estate Tax reinstated
- AMT patched
- Many deductions/credits retained
- Obama tax hikes postponed
- But its temporary (though 2012)



ESTATE TAX

- Exclusion: \$5MM
- Maximum tax: \$35%
- Applicable: 2010 - 2012
- Optional for 2010 Complicated decision



ALTERNATIVE MINIMUM TAX

Exempt amounts:

- \$72450 for MFJ
- \$47450 for Single
- \$36225 for MFS
- Indexed for inflation



ADJUSTMENTS & DEDUCTIONS RETAINED

- Educator Expenses
- Student Loan Interest
- Tuition & Fees
- Standard deduction MFJ \$11,600 (\$9,650)
- Sales Tax deduction option
- Mortgage insurance premiums (1 yr.)
- IRA distributions to charity (\$100,000)

Note: does not extend the additional standard deduction for real property taxes.



CREDITS REINSTATED

- Child Tax Credit remains at \$1000
- Education - AOTC extended (\$2500 max, 40% refundable) - but no computers!
- Home energy-efficient improvements (10% to \$500)
- EIC enhancements (3rd child, thresholds)



TAX RATES

- Old (Bush) rates extended (35% max)
- Capital Gain & Qualified dividend rates continue at 0 - 15%
- Payroll taxes cut 2% (2011 only)



EXPIRED BENEFITS

- Unemployment comp. exclusion of \$2400
- Sales tax deduction on new vehicles
- Increased Std. Deduction for RE taxes
- Waiver of RMD on IRA's
- \$250 GRC & EDP
- Home Buyers Credit (after 4/30/10)



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



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 - may be exempt (If used for education)
 - Treasury Bond interest - taxable
 - “Qualified” dividends - CG tax rate



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 (basis stepped up except 2010)
- 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

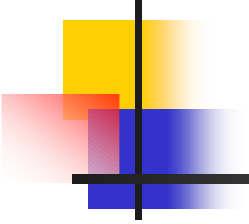
- Form 1099-R received
- Roth IRA distributions not taxable
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- For other codes read instructions
 - May not be taxable
 - May be a penalty
- Remember RMD's



PENSIONS

- Forms: 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 high AGI's



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!
- American Opportunity Credit (education)
- Making Work Pay Credit
- Energy Credit
- Home Buyers Credit (purchased before 4/1/10, closed by 9/30/10)



UNDERPAYMENT PENALTY

- Due if tax owed exceeds \$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