TAX PREPARATION SIMPLIFIED
Derek Cundill

- Today:
  - Federal taxes

- Next Week:
  - Virginia Taxes
  - Tax record keeping
Form 1040

U.S. Individual Income Tax Return

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

1. Your first name and initial
2. Last name
3. Year social security number
4. If a joint return, spouse's first name and initial
5. Last name
6. Spouse's social security number

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.

You must enter your SSN above.

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

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 the child's name here.
5. Qualifying widow(er) with dependent child (see page 19)

Exemptions

- Yourself, if anyone can claim you as a dependent, do not check box a.
- Spouse, if you file jointly.
- Dependents:
  - Name
  - Last name
  - Dependent's relationship to you
  - Dependent's social security number
  - Dependent's relationship to you

- Total number of exemptions claimed

If more than four dependents, see page 17.

Income

- Wages, salaries, tips, etc. (Attach Form W-2)
- Tax-exempt interest
- Ordinary dividends
- Qualified dividends
- Taxable refunds, credits, or offsets of estate and gift tax (see page 25)
- Alimony received
- Business income or (loss)
- Capital gain or (loss)
- Other gains or (losses)
- IRA distributions
- Pensions and annuities
- Rental real estate, royalties, partnerships, S corporations, trusts, etc.
- Farm income or (loss)
- Unemployment compensation
- Social security benefits
- Other income. List type and amount (see page 28)
- Add the amounts in the far right column for lines 7 through 21. This is your total income

Adjusted Gross Income

- Educator expense (see page 26)
- Certain business expenses of farmers, performing artists, and fee-based government officials
- Health savings account deduction
- Moving expenses (Attach Form 3903)
- One-half of self-employment tax
- Self-employed SEP, SIMPLE, and qualified plans
- Self-employed health insurance deduction (see page 26)
- Penalty on early withdrawal of savings
- Alimony paid
- IRA deduction (see page 30)
- Student loan interest deduction (see page 34)
- Tuition and fees deduction (see page 34)
- Domestic production activities deduction (Attach Form 8832)
- Add lines 23 through 33a and 33b through 35
- Subtract line 36 from line 22. This is your adjusted gross income

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 86.
### Form 1040 (2020)

**Tax and Credits**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>31a</td>
<td>Amount from line 30 (adjusted gross income)</td>
</tr>
<tr>
<td>31b</td>
<td>Check [☐] You were born before January 2, 1944, [☐] Blind, Total taxes if [☐] Spouse was born before January 2, 1944, [☐] Blind and checked [☐] 28a.</td>
</tr>
<tr>
<td>31c</td>
<td>If you are age 65 or older, see page 56 and check here [☐] 31c.</td>
</tr>
<tr>
<td>31d</td>
<td>Check if standard deduction includes real estate taxes or disaster losses (see page 3-1) [☐] 31d.</td>
</tr>
<tr>
<td>31e</td>
<td>Itemized deductions (from Schedule A) or your standard deduction (see left margin).</td>
</tr>
<tr>
<td>31f</td>
<td>Subtract line 31c from line 31e.</td>
</tr>
<tr>
<td>31g</td>
<td>If line 31g is over $1,800, or you provided housing to a Midwestern displaced individual, see page 56. Otherwise, multiply $2,500 by the total number of absences obtained on line 4d.</td>
</tr>
<tr>
<td>31h</td>
<td>Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-.</td>
</tr>
<tr>
<td>31i</td>
<td>Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-.</td>
</tr>
<tr>
<td>31j</td>
<td>Add lines 44 and 46.</td>
</tr>
<tr>
<td>31k</td>
<td>Foreign tax credit. Attach Form 1116 if required.</td>
</tr>
<tr>
<td>31l</td>
<td>Credit for child and dependent care expenses, Attach Form 2441.</td>
</tr>
<tr>
<td>31m</td>
<td>Credit for the elderly or the disabled, Attach Schedule R.</td>
</tr>
<tr>
<td>31n</td>
<td>Education credits, Attach Form 8863.</td>
</tr>
<tr>
<td>31o</td>
<td>Retirement contributions credit, Attach Form 8862.</td>
</tr>
<tr>
<td>31p</td>
<td>Child tax credit (see page 40), Attach Form 8936 if required.</td>
</tr>
<tr>
<td>31q</td>
<td>Credit from Form 1 if you are [☐] 65 or older [☐] 80 or older [☐] 65 or older, [☐] blind, [☐] 90 years of age or older.</td>
</tr>
<tr>
<td>31r</td>
<td>Other credits from Form 1, [☐] 65 or older [☐] 80 or older [☐] 65 or older, [☐] blind, [☐] 90 years of age or older.</td>
</tr>
<tr>
<td>31s</td>
<td>Add lines 31g through 31r. These are your total credits.</td>
</tr>
<tr>
<td>31t</td>
<td>Subtract line 31s from line 31f. If line 31t is more than line 31f, enter -0-.</td>
</tr>
</tbody>
</table>

**Other Taxes**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>Self-employment tax, Attach Schedule SE.</td>
</tr>
<tr>
<td>58</td>
<td>Unreimbursed social security and Medicare tax from Form 1, see page 74.</td>
</tr>
<tr>
<td>59</td>
<td>Additional tax on FIA, other qualified retirement plans, etc., Attach Form 5602 if required.</td>
</tr>
<tr>
<td>60</td>
<td>Additional taxes: [☐] AEO payments [☐] Household employment taxes, Attach Schedule B if required.</td>
</tr>
<tr>
<td>61</td>
<td>Add line 56 through 60. This is your total tax.</td>
</tr>
</tbody>
</table>

**Payments**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>Federal income tax withheld from Forms W-2 and 1099.</td>
</tr>
<tr>
<td>63</td>
<td>2019 estimated tax payments and amount applied from 2019 return.</td>
</tr>
<tr>
<td>64a</td>
<td>Earned income credit (EIC).</td>
</tr>
<tr>
<td>64b</td>
<td>Non-taxable combat pay, EIC.</td>
</tr>
<tr>
<td>65</td>
<td>Excess social security and tier 1 REITF tax withheld (see page 63).</td>
</tr>
<tr>
<td>66</td>
<td>Additional child tax credit, Attach Form 8812.</td>
</tr>
<tr>
<td>67</td>
<td>Amount paid with request for extension to file (see page 63).</td>
</tr>
<tr>
<td>68</td>
<td>Credits from Form 1 if you are [☐] 65 or older [☐] 80 or older [☐] 65 or older, [☐] blind, [☐] 90 years of age or older.</td>
</tr>
<tr>
<td>69</td>
<td>First-time homebuyer credit, Attach Form 5405.</td>
</tr>
<tr>
<td>70</td>
<td>Recovery rebate credit (see worksheet on pages 62 and 63).</td>
</tr>
<tr>
<td>71</td>
<td>Add lines 62 through 65. These are your total payments.</td>
</tr>
</tbody>
</table>

**Refund**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>72</td>
<td>If line 71 is more than line 61, subtract line 61 from line 71. This is the amount you receive.</td>
</tr>
<tr>
<td>73a</td>
<td>Amount of line 72 you were refunded to you, Form 8865 is attached, check here [☐] 73a.</td>
</tr>
<tr>
<td>73b</td>
<td>Subtract line 73 from line 61. For details on how to pay, see page 65.</td>
</tr>
</tbody>
</table>

**Amount You Owe**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>76</td>
<td>Amount you owe. Subtract line 71 from line 61. For details on how to pay, see page 65.</td>
</tr>
</tbody>
</table>

**Third Party Designee**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>77a</td>
<td>Do you want to allow another person to discuss this return with the IRS (see page 65)? [☐] No, [☐] Yes. Complete the following.</td>
</tr>
</tbody>
</table>

**Sign Here**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>78</td>
<td>Your signature, date, and occupation. Keep a copy for your records.</td>
</tr>
<tr>
<td>79a</td>
<td>Spouse's signature if a joint return, both must sign. Date Spouse's occupation.</td>
</tr>
</tbody>
</table>

**Paid Preparer's Use Only**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>80</td>
<td>Preparer's signature, date, Preparer's TIN or PTIN.</td>
</tr>
<tr>
<td></td>
<td>Phone number.</td>
</tr>
</tbody>
</table>
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 $11600 ( $9650)
- 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
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