

# Today's Tax Tips

## Linda de Marlor

### "The Tax Lady"

President  
Tax-Masters, Inc  
6127 Executive Blvd – Rockville, MD 20852  
301-230-0200  
tax@tax-masters.com



# 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
  - \$12,500 (MFJ/QW)
  - \$7,100 (Single)
  - \$9,750 (HOH)
  - \$6,800 (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 ½
- Must take by April 1 of year after 70 ½
- 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 (\$6,000)
- Over 65 (62-64)
- 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
  - Still get new car tax

# 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)

# Estate Planning

- Lawmakers are running behind...

