

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

6b Spouse

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

If more than four dependents, see page 17.

d Total number of exemptions claimed

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
 Add numbers on lines above

Income

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 **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 b Recipient's SSN **31a**

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**

**BIO
INFO**

INCOME

**ADJUST-
MENTS**

DEDUCTIONS

CREDITS

PAYMENTS

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				
c Check if standard deduction includes real estate taxes or disaster loss (see page 34) ▶ 39c				
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 8883		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		
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 56 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 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"/> 8865		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		
Do you want to allow another person to discuss this return with the IRS (see page 66)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No				
Third Party Designee		Designee's name ▶	Phone no. ▶ ()	Personal identification number (PIN) ▶
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"/>
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN	Preparer's SSN or PTIN	
		Phone no. ()		

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

Other Taxes

Payments

If you have a qualifying child, attach Schedule EIC.



NEW FOR TY 2011

- Not much!!
- Lower energy credit
 - \$500 max
 - Less if amounts claimed for 5 prior years
- New Capital Gains Form - 8949
 - To track “basis”
- Capital Gains on 2010 Roth Conversions
 - Half due in 2011, half in 2012



NEW CONTINUED

- Usual indexing
 - Standard deduction
 - Personal exemption
 - Business & Medical mileage rates
- “Extenders” extended again
 - Deductions for Educator Expense & Tuition & Fees
 - Itemized deductions for sales taxes & mortgage insurance
 - Some credit enhancements (EIC, Child & Education)



GONE

- Make Work Pay Credit & Sch L, but:
 - Payroll tax reduced 2%
- New Home Buyers Credit, but:
 - 2008 credit repayments are due (5405 Part IV)
- Waiver of RMD on IRA's
- Sales tax deduction on new vehicles
 - Unless paid for in January 2011



ALTERNATIVE MINIMUM TAX

Exempt amounts up slightly:

- \$74450 for MFJ
- \$48450 for Single
- \$37225 for MFS



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
 - Changes this year
 - Shows Short and Long Term gains
 - May include Other Income
- Report transactions on new form 8949
- Totals go to Schedule D
- Inherited Stock (basis stepped up - except 2010?)
- Don't forget Loss Carryover
- Capital Gain Distributions

Sales and Other Dispositions of Capital Assets

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

- ▶ See Instructions for Schedule D (Form 1040).
- ▶ For more information about Form 8949, see www.irs.gov/form8949
- ▶ Attach to Schedule D to list your transactions for lines 1, 2, 3, 8, 9, and 10.

2011
Attachment
Sequence No. **12A**

Name(s) shown on return

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

Note: You **must** check **one** of the boxes below. Complete a *separate* Form 8949, page 1, for **each** box that is checked.

***Caution.** Do not complete column (b) or (g) until you have read the instructions for those columns (see the Instructions for Schedule D (Form 1040)). Columns (b) and (g) do not apply for most transactions and should generally be left blank.

- (A)** Short-term transactions reported on Form 1099-B with basis reported to the IRS **(B)** Short-term transactions reported on Form 1099-B but basis not reported to the IRS **(C)** Short-term transactions for which you cannot check box A or B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Code, if any, for column (g)*	(c) Date acquired (Mo., day, yr.)	(d) Date sold (Mo., day, yr.)	(e) Sales price (see instructions)	(f) Cost or other basis (see instructions)	(g) Adjustments to gain or loss, if any*



SALE OF HOME

- 1099-S received from broker if reportable
- 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
- Basis = Cost + Improvements
- Postponed gain? (from pre 1997 sale)
- 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
- Cannot claim a loss



IRA DISTRIBUTIONS

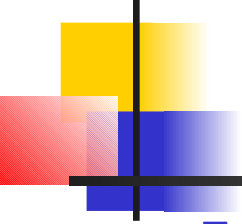
- Form 1099-R received
- **Roth** IRA distributions not taxable
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- Note codes and read instructions
 - May not be taxable, but:
 - May be a penalty e.g early distributions (code 1)
- Remember RMD's



PENSIONS

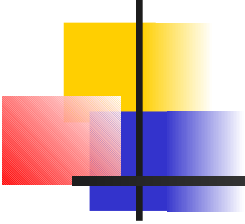
- Forms: 1099-R, RRB-1099 or CSA-1099
- Usually “Taxable Amount” shown in Box 2
- If not, and if contributions made:
 - Use “Simplified Method” worksheet if pension started after July 1, 1986
 - If not use “General Rule” (Pub 939)

SOCIAL SECURITY OR EQUIVALENT

- 
-
- 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
Some taxes paid
Interest paid
Gifts to Charity
Miscellaneous Expenses



Medical Expenses

- Expenses must be:
 - Qualified - see instructions
 - Un-reimbursed
 - Paid by and for TP, spouse or dependents
- Expenses 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 (if based on value of property/car)



DEDUCTIBLE INTEREST

- Home Mortgage Interest:
 - Interest reported on form 1098
 - Points on initial loan
 - Ratable points on refinancing
 - Qualified Mortgage Insurance premiums

- Investment Interest paid

CHARITABLE CONTRIBUTIONS

■ Cash:

- Receipts or bank records required

■ Non-cash contributions require:

- Receipt
- Form 8283 if total 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!
- Education Credits
 - American Opportunity Credit (1st 4 years of College)
 - Life Time Learning Credit (Job related)
- Residential Energy Credit (\$500 max)
- *Repayment* of 2008 Home Buyers Credit



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



THE LAST WORD

The hardest thing in the world to understand is income tax!

Albert Einstein