TAX PREPARATION SIMPLIFIED
Derek Cundill

- Today:
  - Federal taxes

- Next Week:
  - Virginia Taxes
  - Tax record keeping
**INCOME ADJUSTMENTS**

**BIO INFO**

**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) (See page 16.)

**Exemptions**
- 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
- 6b Spouse
- 6c Dependents:
  - (1) first name
  - (2) last name
  - (3) dependent's social security number
  - (4) relationship to you
- 6d Total number of exemptions claimed

**Income**
- 7 Wages, salaries, tips, etc. Attach Form(s) W-2
- 8a Taxable interest. Attach Schedule B if required
- 8b Tax-exempt interest. Do not include on line 8a
- 9a Ordinary dividends. Attach Schedule B if required
- 9b Qualified dividends (see page 21)
- 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 22)
- 11 Alimony received
- 12 Business income or loss. Attach Schedule C or C-EZ
- 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here
- 14 Other gains or (losses). Attach Form 4797
- 15a IRA distributions
- 15b Taxable amount (see page 23)
- 16a Pensions and annuities
- 16b Taxable amount (see page 24)
- 17c Real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
- 18c Farm income or (loss). Attach Schedule F
- 19c Unemployment compensation (see page 25)
- 20a Social security benefits
- 20b Taxable amount (see page 26)
- 21 Other income. List type and amount (see page 26)
- 22 Add the amounts in the far right column for lines 7 through 21. This is your total income

**Adjusted Gross Income**
- 23 Educator expenses (see page 28)
- 24 Certain business expenses of raises, performing artists, and non-government officials. Attach Schedule A or A-EZ
- 25 Health savings account deduction. Attach Form 8880
- 26 Moving expenses. Attach Form 3903
- 27 One-half of self-employment tax. Attach Schedule SE
- 28 Self-employed SEP, SIMPLE, and qualified plans
- 29 Self-employed health insurance deduction (see page 29)
- 30 Parity on early withdrawal of savings
- 31a Alimony paid by recipient's SSN
- 32a IRA deduction (see page 30)
- 33 Student loan interest deduction (see page 30)
- 34 Tuition and fees deduction. Attach Form 8917
- 30 Domestic production activities deduction. Attach Form 8913
- 36 Add lines 25 through 31a and 32 through 35
- 37 Subtract line 36 from line 22. This is your adjusted gross income

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For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 86.
### Deductions

- **Standard Deduction**
  - People who checked any box on line 30a, 30b, or 30c or who can be claimed as a dependent, see page 54.

- **Foreign Tax Credit**
  - Attach Form 1116 if required.

- **Credit for Child and Dependent Care Expenses**
  - Attach Form 2441 if required.

- **Education Credit**
  - Attach Form 8863.

- **Retirement Savings Contributions Credit**
  - Attach Form 8899.

- **Child Tax Credit**
  - If line 49 is more than line 48, enter 0.

- **Alternative Minimum Tax**
  - If line 54 is more than line 45, enter 0.

- **Self-Employment Tax**
  - Attach Schedule SE.

- **Unrelated Social Security and Medicare Tax**
  - Attach Form 8899 if required.

- **Additional Tax on IRAs, other qualified retirement plans, etc.**
  - Attach Form 8899 if required.

- **Additional Taxes:**
  - □ NECO payment
  - □ Households earning $50,000 or less

### Credits

- **Earned Income Credit (EIC)**
  - Attach Form 8863.

- **Nonrefundable Child Tax Credit**
  - Attach Form 8812.

### Payments

- **Federal Income Tax Withheld from Forms W-2 and 1099**
  - Enter amount applied on 2007 return.

- **Federal Income Tax Withheld from Forms W-2 and 1099**
  - Enter amount applied on 2007 return.

- **Federal Income Tax Withheld from Forms W-2 and 1099**
  - Enter amount applied on 2007 return.

### Refund

- **Line 80 is more than line 69. Subtract line 80 from line 69. This is the amount overpaid.**

- **Amount of line 82, if you were refunded to you. If Form 8812 is attached, check here □.**

### Amount You Owe

- **Subtract line 71 from line 69. For details on how to pay, see page 63 □**

- **Estimated tax penalty (see page 63 □**

### Third Party Designee

- **Sign Here**
  - See page 15.
  - Keep a copy for your records.

- **Date**
  - Your occupation

- **Date**
  - Your spouse's occupation

- **Date**
  - Spouse's signature. If a joint return, both must sign.

### Preparer's Use Only

- **Date**
  - Check if self-employed □

- **Date**
  - Preparer's SSN or PTIN

- **Date**
  - Paid Preparer's signature

- **Date**
  - Preparer's name (or yours if self-employed), license, and ZIP code
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

January 26, 2012 OLLI
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
After that time arrangements must be made with your Local Coordinator in order to test.
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 hardest thing in the world to understand is income tax!

Albert Einstein