



MORE ON TAXES

- The average person now lives 31 years longer than in 1850. We have to in order to get our taxes paid!
- And Virginia taxes us too!!



TODAY'S TAX TOPICS

1. Virginia Tax Law

2. Organizing your tax records

“with emphasis on senior issues”



VIRGINIA TAXES

- They are complicated!
- Little help is available
- So many people pay too much
- Why?
- Because they are unaware of:
 - Allowable subtractions/deductions
 - Available credits
 - How to maximize the spouse tax adjustment



VIRGINIA OVERVIEW

FEDERAL ADJUSTED GROSS INCOME (AGI)
+ ADDITIONS
- SUBTRACTIONS
= VIRGINIA AGI
- DEDUCTIONS
- EXEMPTIONS
= VIRGINIA TAXABLE INCOME
x TAX TABLES
= TAX
- SPOUSE TAX ADJUSTMENT
- CREDITS
- TAX ALREADY PAID
= TAX OWED/REFUND

ADDITIONS



- **JUST ONE**

- **Interest** on State Obligations (Muni Bonds)
- Popular for those in higher tax brackets

- **NOTE**

- Munis are Federally exempt but taxable in VA
- Except **Virginia** bond interest is exempt in VA
- **Caution!** Bond Funds - VA portion of interest is exempt, rest taxable in VA

SUBTRACTIONS



- **AGE DEDUCTION - means tested**
- **SOCIAL SECURITY BENEFITS - if taxed federally**
- **STATE TAX REFUND**
- **OTHER SUBTRACTIONS**
 - **About 20 of them!**
 - **Entered on Schedule ADJ**

COMMON ADJ SUBTRACTIONS

(Two Digit Codes)

■ Line 4 Interest on Treasuries

■ Line 5 Disability Income (wages)

■ Line 6: Two digit codes

- 20 - CAPITAL GAINS FROM VA OBLIGATIONS
- 22 - RAILROAD RETIREMENT BENEFITS
- 24 - VA LOTTERY PRIZES (Under \$600 each)
- 37 - UNEMPLOYMENT COMPENSATION
- 39 - GOVERNMENT EMPLOYEE INCOME (<\$15000)

- 45 - AVIAN INFLUENZA COMPENSATION!



DEDUCTIONS

■ **STANDARD OR ITEMIZED**

- As per Federal Return
- If Itemizing subtract VA income tax
- May pay to elect itemization (VA Std Ded. is small)

■ **EXEMPTIONS - \$930 pp (+\$800 if >65)**

■ **OTHER DEDUCTIONS**

- **About 12 of them!**
- **Entered on Schedule ADJ**

COMMON ADJ DEDUCTIONS

(Three Digit Codes on line 8)

- 101 - **Child & Dependent Care Expense**
 - Only if Federally eligible
 - Expense **not** credit
- 102 - **Foster Care** (\$1000/child)
- 104 - **Contributions to Virginia College Savings Plan**
(Up to \$4000 if < 70, unlimited if > 70)
- 105 - **Teacher Education** (20% of cost)
- 106 - **LTC premiums** (not incl on Sch A)
- 109 - 20% of **Sales Tax** on Energy Savings Appliances
- 111 - **Charitable mileage** (18 vs 14c)



TAX COMPUTATION

- $FAGI + ADD - SUBTR = VAGI$
- $VAGI - DEDUCTIONS = VTI$
- $VTI \times TAX\ RATE = VA\ TAX$

EXCEPT:

- If Tax payer is married there may be a “Spouse Tax Adjustment”



SPOUSE TAX ADJUSTMENT

- **PRINCIPLE:** Taxed as if filing separately
- **EFFECT:** Lowers the tax bracket
- **BENEFIT:** \$259 max
- **MAXIMIZE:** By equalizing incomes:
 - **Joint income** to lower income spouse
 - **Joint deductions** to higher income spouse



CREDITS

- **THERE ARE 25 POTENTIAL CREDITS!**
- **BUT MAINLY BUSINESS OR FARMING RELATED**
- **WORTH CHECKING:**
 - Credit for Low Income or 20% of Federal EIC
 - Credit for tax paid to another State (Sch OSC)
 - **Certain** Political Contributions (\$25/50 max)
 - **Credit for new LTC insurance policies** (unless taken as a deduction)



LONG TERM CARE CREDIT

- For first 12 months of policy only
- 15% of **premiums** paid:
 - During tax year
 - Only if no Federal or Virginia **deduction** claimed
- Can carry-over unused credit for 5 years
- Can claim deduction in following years
- Need to evaluate credit vs deduction



IN CONCLUSION



ORGANIZATION OF YOUR TAX RECORDS

THE PROVERBIAL SHOEBOX

or

IS THERE A BETTER WAY?



THREE TYPES OF RECORDS

1. ESSENTIAL FOR FILING

- Required by the IRS

2. DESIRABLE FOR FILING

- Needed to maximize deductions & credits

3. RETENTION DOCUMENTS

- May be required in the long term

ESSENTIAL FILING DOCUMENTS

IRS NUMBERED INCOME FORMS

- W-2 Wages
- W-2G Gambling Winnings
- 1099's
 - Interest 1099-INT & 1099-OID
 - Dividends 1099-DIV
 - Sale of Stock 1099-B
 - Sale of Home 1099-S
 - Retirement Income 1099-R, RRB-1099 & SSA-1099
 - Unemployment/Refund 1099-G
 - Odds & Ends 1099-MISC
- K-1's Partnerships and Trusts



ABOUT THESE FORMS

THEY:

- Vary in size and design
 - Don't be confused
- Contain information other than income
 - Don't overlook anything
- Have been sent to the IRS
 - Don't ignore anything

OTHER FILING ESSENTIALS



UN-NUMBERED FORMS OR RECORDS:

- Alimony received
- Self Employment Income
- Prizes and Awards



DESIRABLE FOR FILING

(To your benefit)

- Adjustments to Income
 - Alimony paid
 - IRA contributions
 - Student Loan Interest
- **Itemized Deductions (Schedule A)**
 - Medical expenses
 - Real Estate Taxes
 - VA Taxes paid
 - Mortgage interest (Form 1098)
 - Charitable contributions (Form 1098C for cars)
 - Other allowable expenses
- Virginia Subtractions & Deductions



RETENTION DOCUMENTS

■ WHY RETAIN?

- To help with next year's return
- To reduce next year's taxes e.g. loss carryovers
- You may want to amend a past return
- You may be audited!!
- You need to know the basis for future asset sales
- Sentimental value!

■ HOW LONG?

- “For as long as they are important for federal tax law”
(IRS Publication 17)



STATUTE OF LIMITATIONS

- **3 YEARS** from date of filing - “in general”
- **6 YEARS** - if income under-reported by over 25%
- **FOREVER** - if a return is false or fraudulent

YOUR CHOICE!

- At least retain a copy of your return and all supporting documents for 3 years

PROPERTY BASIS RECORDS



- **BASIS IS INVESTMENT IN A PROPERTY**
- **NEEDED TO FIGURE YOUR GAIN OR LOSS WHEN YOU SELL**
- **COMPLICATIONS**
 - **Time:** May be many years between purchase and sale
 - **Splits:** Must be accounted for
 - **Reinvested dividends:** should be included
 - **Homes:**
 - Record improvements
 - Postponed pre-1997 gains reduce basis!
- **KEEP THESE RECORDS FOREVER!**



ORGANIZING YOUR RECORDS

- **IT'S A PERSONAL THING**
- **THROW OUT THE SHOEBOX**
- **SORT** - Distinguish between tax and other financial documents e.g. bank statements
- **USE YOUR COMPUTER** (if you are comfortable)
- **OR, USE FILE FOLDERS**



SUGGESTIONS

- **A FOLDER FOR THE NEW TAX YEAR:**
 - Notes from prior year
 - Estimated Tax coupons & payments
 - Prior year carryovers e.g. unused cap losses
 - Infrequent receipts e.g. real estate tax, car tax
 - January stuff - W-2's, 1099's, etc.
- **CHARITABLE CONTRIBUTIONS:**
 - Envelope for current year receipts
 - Diary entry for charitable mileage
- **MEDICAL RECORDS FOLDER(S)**
 - Keep separate

SUGGESTIONS CONTINUED

- **A folder for each Home:** (Closing documents, cost of improvements and associated dates)
- **Folders for Stocks, Bonds or Funds:**
 - Original purchase date and cost
 - For Stocks:
 - Details of splits or additional stock received
 - Dates and number of shares sold
 - For Mutual Funds:
 - Current year monthly statements
 - At year end keep December statement, destroy the rest
 - Use fund's average cost basis



FINALLY

- **AFTER FILING, KEEP IN THAT YEAR'S TAX FOLDER:**

- A copy of return (all forms)
- Copies of all Income forms (W-2's, 1099's, etc)
- All other supporting documents

- **AFTER 3 YEARS:**

- Move essentials to basement
- Shred the rest

- **ENSURE YOUR SPOUSE KNOWS WHERE ALL YOUR TAX DOCUMENTS ARE!**

It ain't over 'till *all* of the paperwork's done

