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
ADDIIONS

- **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

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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

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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 x 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

- Virginia tax laws are complicated.
- You can reduce your Virginia taxes by:
  - Not missing deductions and adjustments
  - Optimizing the spouse tax adjustment
  - Taking advantage of credits

Final caution - penalty threshold is low ($150).

Questions or comments on Virginia taxes???
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
- W-2G
- 1099’s
  - Interest
  - Dividends
  - Sale of Stock
  - Sale of Home
  - Retirement Income
  - Unemployment/Refund
  - Odds & Ends
- K-1’s

February 2, 2012 OLLI
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