

# TAX PREPARATION SIMPLIFIED

Tom Loftus

- **Today:**
  - Federal taxes
- **Next Week:**
  - Virginia Taxes
  - Tax record keeping

# BIO INFO

# INCOME

# ADJUST- MENTS

2/5/2014

**Form 1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return 2008** (99) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2008, or other tax year beginning \_\_\_\_\_, 2008, ending \_\_\_\_\_, 20\_\_\_\_\_ OMB No. 1545-0074

**Label** (See instructions on page 14.) Use the IRS label. Otherwise, please print or type.

**LABEL HERE**

Your first name and initial \_\_\_\_\_ Last name \_\_\_\_\_ Your social security number \_\_\_\_\_

If a joint return, spouse's first name and initial \_\_\_\_\_ Last name \_\_\_\_\_ Spouse's social security number \_\_\_\_\_

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. \_\_\_\_\_

▲ 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 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. ▶

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above and full name here. ▶

5  Qualifying widow(er) with dependent child (see page 18)

Check only one box.

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a. . . .

b  Spouse . . . . .

**Dependents:**

(1) First name	Last name	(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)

If more than four dependents, see page 17.

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 ▶

**d** Total number of exemptions claimed \_\_\_\_\_

**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 ▶ <input type="checkbox"/>	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
23	Educator expenses (see page 26)	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	31a
b	Recipient's SSN ▶	
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

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

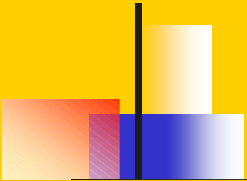
If you did not get a W-2, see page 21.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

**Adjusted Gross Income**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 88. Cat. No. 11320B Form 1040 (2008)

# DEDUCTIONS



# CREDITS

# PAYMENTS

Tax and Credits		36	
38	Amount from line 37 (adjusted gross income)		
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 <input type="checkbox"/>		
c	Check if standard deduction includes real estate taxes or disaster loss (see page 34) ▶ 39c <input type="checkbox"/>		
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 8863	50	
51	Retirement savings contributions credit. Attach Form 8980	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"/> 6601 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
Other Taxes		57	
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"/> 8819		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	
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 <input type="checkbox"/> 84b		
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"/> 6901 d <input type="checkbox"/> 6665	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	
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	
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) ▶	<input type="text"/>
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.			
Joint return? See page 15. Keep a copy for your records. ▶	Your signature	Date	Your occupation
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation
	Preparer's signature ▶	Date	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code ▶	Check if self-employed <input type="checkbox"/>	EIN
			Phone no. ( )



# 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



# NEW FOR 2013

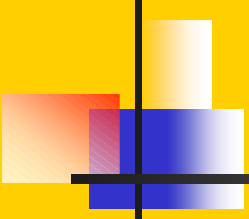
- Higher taxes for the “wealthy”
    - Applies to AGI’s > \$400/450K
    - Ordinary income rate up to 39.6%
    - Dividend & Cap Gains up to 20%
    - Exemption/Deduction phase out from \$250/300K
  - Payroll tax for all back to 6.2%
  - Medical expense threshold 10% of AGI
  - Estate tax rate up to 40% on estates > \$5m
- Special Topics Later for 2013/2014



# NEED I FILE?

- Who *must* file?
- Who *should* file?
- **How** should I file?
  - Form 1040EZ, 1040A or 1040?
  - Do it myself or ???

# 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
  - Treasury Bond interest - taxable
  - Savings Bond interest taxable unless used for education
  - **Qualified** dividends - CG tax rate



# CAPITAL GAINS

- Broker's Statements (1099-B) changed again
- Report transactions on form 8949 (6)
- Totals go to Schedule D
- Inherited Stock (basis stepped up - except 2010?)
- Don't forget Loss Carryover
- Capital Gain Distributions



# 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
- Report net gain (if any) on Schedule D
- Loss not allowed



# FORECLOSURES

- If foreclosed, Form 1099-A received
  - Must report on Sch D
- If debt cancelled, Form 1099-C is received
  - Report on Form 982 to exclude from income
- Cannot claim a loss



# IRA DISTRIBUTIONS

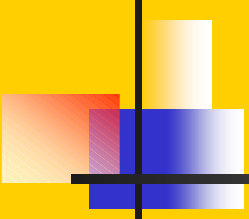
- Form 1099-R received
- **Roth** IRA distributions not taxable (usually)
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- Note codes and read instructions
  - May not be taxable, but:
  - May be a penalty e.g early distributions (code 1)
- Remember RMD's



# PENSIONS

- Forms: 1099-R, RRB-1099R or CSA-1099R
- Usually “Taxable Amount” shown in Box 2
- If not, and if contributions (Box 9b) made:
  - Use “Simplified Method” worksheet if pension started after July 1, 1986
- Disability Pay (Code 3)
- Medical Expenses (Box 5)

# 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 (if  $> 7.5\%$  or  $10.0\%$ )
- **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%/10.0 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)
- Compare Taxable Refunds



# DEDUCTIBLE INTEREST

- Home Mortgage Interest:
  - Interest reported on form 1098
  - Points on initial loan
  - Ratable points after 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 \$150,000Consider quarterly estimated tax payments
- Estimated Taxes to avoid penalties



# What's New

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- See Publication 17, page 1.
- Additional Medicare Tax
- Net Investment Tax
- Limited Itemized Deductions
- Highest Tax Rate 39.6%
- Same-Sex Marriage





# FINALLY BEWARE THE AMT!

- Depends on:
  - Income level
  - Type of income
  - Deductions
- Has a complex effect on deductions
- Requires a complicated form - 6251



# THE LAST WORD

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

Albert Einstein