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Today: Federal Taxes

Next Week: Virginia Taxes and Record Keeping

TAX PREPARATION SIMPLIFIED

WHAT WILL YOU NEED?

- ✘ All your tax documents
 - + New Form 1095-A for ACA insurance purchased in the Marketplace
- ✘ Federal 1040 Instructions and Pub 17
 - + Pub 5157 for Affordable Care Act
 - + Other specialized IRS publications as required
 - + Search topic on irs.gov
- ✘ Virginia 760 Instructions

DEDUCTIONS AND EXEMPTIONS

NON-REFUNDABLE CREDITS

PAYMENTS & REFUNDABLE CREDITS

Form 1040 (2012) Page 2

	38	Amount from line 37 (adjusted gross income)	38			
Tax and Credits	39a	Check <input type="checkbox"/> You were born before January 2, 1950, <input type="checkbox"/> Blind. Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1950, <input type="checkbox"/> Blind. checked <input type="checkbox"/> 39a				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here: <input type="checkbox"/> 39b				
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately \$5,500 Married filing jointly or Qualifying widow(er) \$11,000 Head of household \$6,100	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40			
	41	Subtract line 40 from line 38	41			
	42	Exemptions. If line 39 is \$12,500 or less, multiply \$3,000 by the number on line 4d. Otherwise, see instructions	42			
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43			
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 9914 b <input type="checkbox"/> Form 4872 c <input type="checkbox"/>	44			
	45	Alternative minimum tax (see instructions). Attach Form 6251	45			
	46	Excess advance premium tax credit repayment. Attach Form 8962	46			
	47	Add lines 44, 45, and 46	47			
	48	Foreign tax credit. Attach Form 1116 if required	48			
	49	Credit for child and dependent care expenses. Attach Form 2441	49			
50	Education credits from Form 8863, line 19	50				
51	Retirement savings contributions credit. Attach Form 8860	51				
52	Child tax credit. Attach Schedule 8812, if required	52				
53	Residential energy credits. Attach Form 8869	53				
54	Other credits from Form: a <input type="checkbox"/> 8800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54				
55	Add lines 48 through 54. These are your total credits	55				
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56				
Other Taxes	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 5320 if required	59			
	60a	Household employment taxes from Schedule H	60a			
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b			
	61	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	61			
62	Taxes from: a <input type="checkbox"/> Form 8928 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62				
63	Add lines 57 through 62. This is your total tax	63				
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64			
	65	2014-estimated tax payments and amount applied from 2013 return	65			
	66a	Earned income credit (EIC)	66a			
	b	Nonrefundable combat pay election <input type="checkbox"/> 66b				
	67	Additional child tax credit. Attach Schedule 8812	67			
	68	American opportunity credit from Form 8863, line 5	68			
	69	Net premium tax credit. Attach Form 8962	69			
	70	Amount paid with request for extension to file	70			
	71	Excess social security and tier 1 RRTA tax withheld	71			
	72	Credit for federal tax on fuels. Attach Form 4136	72			
73	Credits from Form: a <input type="checkbox"/> 8453 b <input type="checkbox"/> 8949 c <input type="checkbox"/> 8949 d <input type="checkbox"/>	73				
74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74				

NEW DOLLAR LIMITS

- ✘ The usual gang of suspects have been indexed for inflation
 - + Standard Deduction
 - + Personal and dependent exemptions
 - + Phase out of Exemptions and Itemized Deductions
 - + Business Mileage Rate
 - + EIC Credits and Income Levels
 - + Lots of others (about 17)
- ✘ Check 1040 Instructions, Pub 17, and irs.gov for specific values

PROVISIONS RECENTLY EXTENDED

- ✘ COD exclusion for principal residence
 - + Form 982 and Instructions
- ✘ Qualified Charitable Distribution—QCD (Tax-free distribution from IRAs to public charities for individuals age 70½ or older)
 - + 1040 Line 16a and 16b
- ✘ Adjustment for educator classroom expenses up to \$250
 - + Enter on 1040 Line 22

PROVISIONS RECENTLY EXTENDED (CONT'D)

- × Adjustment for qualified tuition and fees
 - + Enter on 1040 Line 34
 - + Why is this important?
 - × For low income clients, reducing AGI increases EIC
 - × For clients with low/no tax liability, Life Long Learning Credit could be wasted
- × Deduction for state and local general sales taxes
 - + Might exceed deduction for state income tax
 - + Enter qualified amount on Sch A (Sales Tax calculator on irs.gov)
 - + Can increase by major purchases like a car

PROVISIONS RECENTLY EXTENDED (CONT'D)

- ✘ Premiums for mortgage insurance deductible as interest for qualified residence
 - + Enter on Sch A Line 13
- ✘ Nonbusiness energy property credit
 - + Same rules/limits as last year
 - + Calculate on Form 5695
 - + Enter on 1040 Line 53
 - + \$500 life-time limit on credit

NEW PROVISIONS (LESS ACA)

- ✘ Limit on Long Term Care Insurance benefits characterized as “per diem” payments
 - + Calculate on Form 8853 Section C and report on 1040 Line 21
- ✘ IRS may accept certain explanations for not taking your Required Minimum Distribution
 - + Report on Form 5329 Pg 2 Sec VIII
 - + Write “waiver” on Line 53 and provide a note explaining why you didn’t take the RMD
 - + IRS may not accept it and will send you a bill

ACA OVERVIEW

- ✘ Everyone must have Minimum Essential Coverage (MEC) or pay a Shared Responsibility Payment (SRP)
- ✘ If you have employer-sponsored insurance, Medicare, Medicare Advantage, Tricare (and some others) you have MEC
- ✘ If you buy insurance in the Marketplace you may be eligible for help in the form of a Premium Tax Credit (PTC)
 - + You will receive a Form 1095-A
 - + Family income between 100% and 400% of FPL
- ✘ If you got a PTC based on projected 2014 income and family status and 2014 actuals are different
 - + You might have to pay some of it back
 - + You might be eligible for more
- ✘ The 1040 is where the ACA books are balanced

MINIMUM ESSENTIAL COVERAGE

- ✘ Examples of MEC
 - + Individual Insurance purchased from an insurance company
 - + Medicare Part A
 - + Medicare Advantage Plans
 - + Tricare
 - + Employer-sponsored coverage, including COBRA and retiree coverage
 - + Details in IRS Pub 5157
- ✘ If you, and everyone in your household for whom you claim a deduction, has MEC, then you don't need to worry anymore about ACA
 - + Check the 1040 Line 61 box and move on

EXEMPTIONS FROM MEC REQUIREMENT

- ✘ There are 19 exemptions available, including
 - + Income below the filing threshold
 - + Short gap due to Marketplace startup problems
 - + Short gap due to lost job
 - + Affordability
 - + Religious objections
 - + Incarceration
- ✘ Use Pub 5157 and Form 8965 Instruction Booklet

“BALANCING THE ACA BOOKS”

- ✘ If you and your household haven’t had MEC for every month of 2014
 - + Claim any exemptions using Pub 5157 and Form 8965
 - + For any month with neither MEC nor an exemption, calculate your Shared Responsibility Payment using Pub 5157 and the SRP worksheet in Form 8965 Instructions
- ✘ If you have received or are eligible for a premium tax credit
 - + Use Pub 5157, Form 1095-A, and Form 8692 to reconcile PTC
- ✘ ACA can get complicated. Read the instructions carefully

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

- ✘ Single
- ✘ Married Filing Jointly
 - + Valid if spouse died during TY
- ✘ Married Filing Separately
- ✘ Head of Household
 - + Single with a qualifying dependent
- ✘ Qualifying Widow(er)
 - + Spouse died during prior two years
 - + With a qualifying dependent child or stepchild
 - + Not a grandchild or foster child

INTEREST AND 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 – Taxed at Capital Gains tax rate

CAPITAL GAINS

- ✘ Broker's Statements (1099-B) changed again
- ✘ Report transactions on form 8949
- ✘ Totals go to Schedule D
- ✘ Inherited Stock (basis stepped up - except 2010?)
- ✘ Don't forget Loss Carryover
- ✘ Capital gain tax rates are much lower
 - + 0% for taxpayers in 10% and 15% brackets
 - + 15% most other taxpayers
 - + 20% for 39.6% high income bracket

SALE OF HOME

- ✘ 1099-S received from broker if reportable
- ✘ Can exclude \$250K/\$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
- ✘ 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)
- ✘ Remember RMD's

PENSIONS

- ✘ Forms: 1099-R, RRB-1099R or CSA-1099R
- ✘ 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 RRB

- ✘ 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 ON SCHEDULE A

- ✘ Medical Expenses (if $> 7.5\%$)
- ✘ Some taxes paid
- ✘ Interest paid
- ✘ Gifts to Charity
- ✘ Miscellaneous Expenses

MEDICAL EXPENSES

- ✘ Expenses must be:
 - + Qualified - see instructions
 - + Un-reimbursed
 - + Paid by and for taxpayer, spouse or dependents
- ✘ Expenses include:
 - + Medical and dental insurance premiums
 - + Long Term Care 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 (reported by mortgage company on Form 1098 if paid from escrow)
- ✘ Personal Property taxes (if based on value of property/car)

DEDUCTIBLE INTEREST

- ✘ Home Mortgage Interest:
 - + Interest reported on form 1098
 - + Points on initial loan
 - + Amortized 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!
 - + See Pub 524
- ✘ Education Credits
 - + American Opportunity Credit (1st 4 years of College)
 - + Life Time Learning Credit (All post secondary courses and courses to improve job skills)
- ✘ 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!

- ✘ AMT exemption amount is indexed to keep most taxpayers out of AMT situations
- ✘ Primary AMT exposure comes at high incomes, high deductions, and/or certain kinds of investments
 - + Passive activity losses
 - + Accelerated depreciation
 - + Incentive stock options
 - + Certain intangible drilling costs
- ✘ Requires a complicated form – Form 6251

TAX PREP SERVICES: BUYER BEWARE

(From the National Consumer Law Center and Consumer Federation of America)

- ✘ Most paid tax preparers are not subject to any minimum educational, training, or competency standards
 - + IRS is prohibited from requiring testing and continuing education
 - + Only 4 States regulate paid preparers (MD, OR, CA, NY)
 - + The only tax preparers required to pass an IRS-approved test are CPAs, enrolled agents, and VITA (includes AARP Tax-Aide)
- ✘ You often cannot comparison shop the fees you may be charged
 - + GAO “shoppers” found fees for same service can vary by up to 300%
- ✘ ALL forms of advanced refund payment systems result in usurious interest rates and fees (RAC, RAL, Pre-paid debit cards, all of them)
- ✘ At the end of the day, it is your tax return and the IRS will hold you responsible for filing a correct tax return

WHAT ELSE DO YOU WANT TO TALK ABOUT?