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Today: Virginia Taxes and Record Keeping

TAX PREPARATION SIMPLIFIED

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

WHO NEEDS TO FILE IN VIRGINIA

- ✘ Every Virginia resident whose Virginia adjusted gross income (VAGI) is at or above the minimum threshold must file
 - + Single - VAGI is \$11,950 or more
 - + MFJ - VAGI is \$23,900 or more
 - + MFS - VAGI is \$11,950 or more
- ✘ Complete Form 760, Lines 1 through 9, to determine VAGI

WHAT'S NEW IN VIRGINIA

- ✘ Married same-sex couples can file MFJ and amend up to 3 prior years if legally married for those years
- ✘ VA Sch VAC to direct refund to Virginia College Savings Plan (529)
- ✘ First Time Homebuyer's Savings Account to shelter interest and gains
- ✘ Education Improvement Scholarship Credit
 - + Money or marketable securities donated to certain scholarship foundations
- ✘ Political Contribution moved to VA 760 Pg 1 Line 26
- ✘ Last 5 digits of VA Drivers License requested, not required
- ✘ Long Term Care Insurance Credit (15% of first 12 months premiums) cancelled but carryover of prior unused credit (5-yr carryover period) can be claimed

COMMON VIRGINIA TAX FORMS

- ✘ 760 is the basic VA tax return
- ✘ Schedule ADJ
 - + Additions, Subtractions, and Deductions not directly entered on 760
- ✘ Schedule CR is for credits
 - + Generally pretty obscure special credits
 - + See instructions
- ✘ Schedule VAC is to allocate refund to Virginia College Savings account and other voluntary contributions listed in 760 instructions
- ✘ 760C is for underpayment penalties if applicable
 - + Total withholding less than 90% of tax due
- ✘ 760 ES is for making estimated tax payments

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

WEB 2014 Virginia Resident Form 760 Individual Income Tax Return
 File by May 1, 2015 - PLEASE USE BLACK INK

Your first name M.I. Last name including suffix
 Social Security Number First 4 letters of last name

Spouse's first name (Joint returns only) M.I. Last name including suffix
 Birth Date (mm-dd-yyyy) Deceased

Number and Street - If this is a change, you must fill in oval
 City, town or post office and state ZIP Code

Fill in all ovals that apply:
 Name or Filing Status changed, Overseas on due date, Virginia return not filed last year, Federal Schedule C filed, Dependent on another's return, Earned Income Credit on federal return, Qualifying farmer, fisherman or merchant seaman, Amount claimed, Amended Return - Result of NOL? YES

Filing Status Enter in box (1 = Single, 2 = Joint, and 3 = Married Filing Separately)
 Code Federal head of household? YES, If Filing Status 3, enter spouse's SSN in the Spouse's Social Security Number box at top of form and, enter Spouse's Name

Exemptions Add Section A and B. Enter the sum on Line 13.
 Total Section A, Total Section B

1. Adjusted Gross Income from federal return - Not federal taxable income 1
 2. Additions from attached Schedule ADJ, Line 3 2
 3. Add Lines 1 and 2 3
 4. Age Deduction. See Instructions. Be sure to provide date of birth above.
 You .00 + Spouse .00 = 4
 5. Social Security and equivalent Tier 1 Railroad Retirement benefits if taxable on federal return 5
 6. State Income Tax refund or overpayment credit (reported as income on federal return) 6
 7. Subtractions from attached Schedule ADJ, Line 7 7
 8. Add Lines 4, 5, 6 and 7 8
 9. Virginia Adjusted Gross Income (VAGI) - Subtract Line 8 from Line 3 9
 10. Itemized Deductions from federal return 10
 11. State and Local Income Taxes claimed on federal Schedule A 11
 12. Subtract Line 11 from Line 10 if claiming itemized deductions. Otherwise, enter standard deduction:
 Filing Status: 1 = \$3,000; 2 = \$5,000; 3 = \$3,000 12
 13. Exemptions. Sum of total from Exemption Section A plus Exemption Section B 13
 14. Deductions from Schedule ADJ, Line 9 14
 15. Add Lines 12, 13 and 14 15
 16. Virginia Taxable Income - Subtract Line 15 from Line 9 16

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BIO DATA

FEDERAL AGI

ADDITIONS & SUBTRACTIONS

VIRGINIA AGI

DEDUCTIONS &

EXEMPTIONS VIRGINIA

TAXABLE INCOME

PERSONAL & DEPENDENT EXEMPTIONS

VA ADDITIONS TO FED AGI

- ✘ 760 Line 1 is Federal AGI (1040 Line 37)
- ✘ 760 Line 2 is Additions from Schedule ADJ Line 3
 - + E.g., Schedule ADJ Code 10 Interest on obligations of other states not taxed federally but taxable in Virginia

VA AGE DEDUCTION AND SUBTRACTIONS FROM FEDERAL AGI

- ✘ 760 Line 4 is the Age Deduction
 - + Generally \$12,000 for taxpayers 65 or older
- ✘ 760 Line 5 subtracts SSI and RRB that was taxed on 1040 Line 20b – not taxed in Va
- ✘ 760 Line 6 subtracts the federally taxed state refund amount on 1040 Line 10
- ✘ 760 Line 7 is the total subtractions from Schedule ADJ Line 7 (see next slide)
- ✘ 760 Line 9 is your Virginia AGI (VAGI)

SCHEDULE ADJ LINE 7

- ✘ Schedule ADJ Line 4 is income from obligations of the US not taxed in Va (e.g., US Savings Bond Interest)
- ✘ Schedule ADJ Line 5 is disability income reported as wages on 1040 (e.g., 1099-R Distribution Code 3)
 - + If over 65 can deduct up to \$20,000 if Age Deduction not taken
- ✘ Schedule ADJ Line 6 is other subtraction codes from the instructions. Common ones include:
 - + Code 20 – Capital Gains on Va obligations (taxed by IRS, not Va)
 - + Code 22 – RR retirement benefits (Pensions)
 - + Code 24 – VA Lottery winnings less than \$600 (Not a deduction or “floor” - \$600 or more is fully taxable)
 - + Code 34 – Certain distributions from College Savings plan (not used for education due to death, disability, or availability of scholarship funds)
 - + Code 37 – Unemployment Benefits (taxed by IRS, not Va)

CALCULATING THE VIRGINIA TAXABLE INCOME

- ✘ 760 Line 9 is Virginia AGI
- ✘ 760 Line 10 is Federal Itemized Deductions
- ✘ 760 Line 11 and 12 add back the Federal State Income Tax Deduction or adds the Virginia Standard Deduction if not itemizing
- ✘ 760 Line 13 has the total personal and dependent exemptions from top of 760 page 1
- ✘ 760 Line 14 totals the Deductions from Schedule ADJ Line 9 (see next slide)
- ✘ 760 Line 15 is the Virginia Taxable Income

SCHEDULE ADJ DEDUCTIONS LINE 9

- ✘ Typical Deduction Codes on Schedule ADJ Line 8 that are totaled to Schedule ADJ Line 9
 - + Code 101 – Child/Dependent Care (total expense, not just Federal Credit on 1040 Line 49)
 - + Code 104 – Virginia College Savings Plan contributions (Up to \$4000 except unlimited if over age 70)
 - + Code 106 – Long Term Care Insurance Premiums
 - + Code 109 – Sales tax on energy efficient appliances
 - + Code 111 – Charitable Miles (\$0.18/mile in Va)
 - + Code 114 – Funeral, Medical, and/or Dental Insurance Premiums (for certain low income taxpayers age 66 or older)

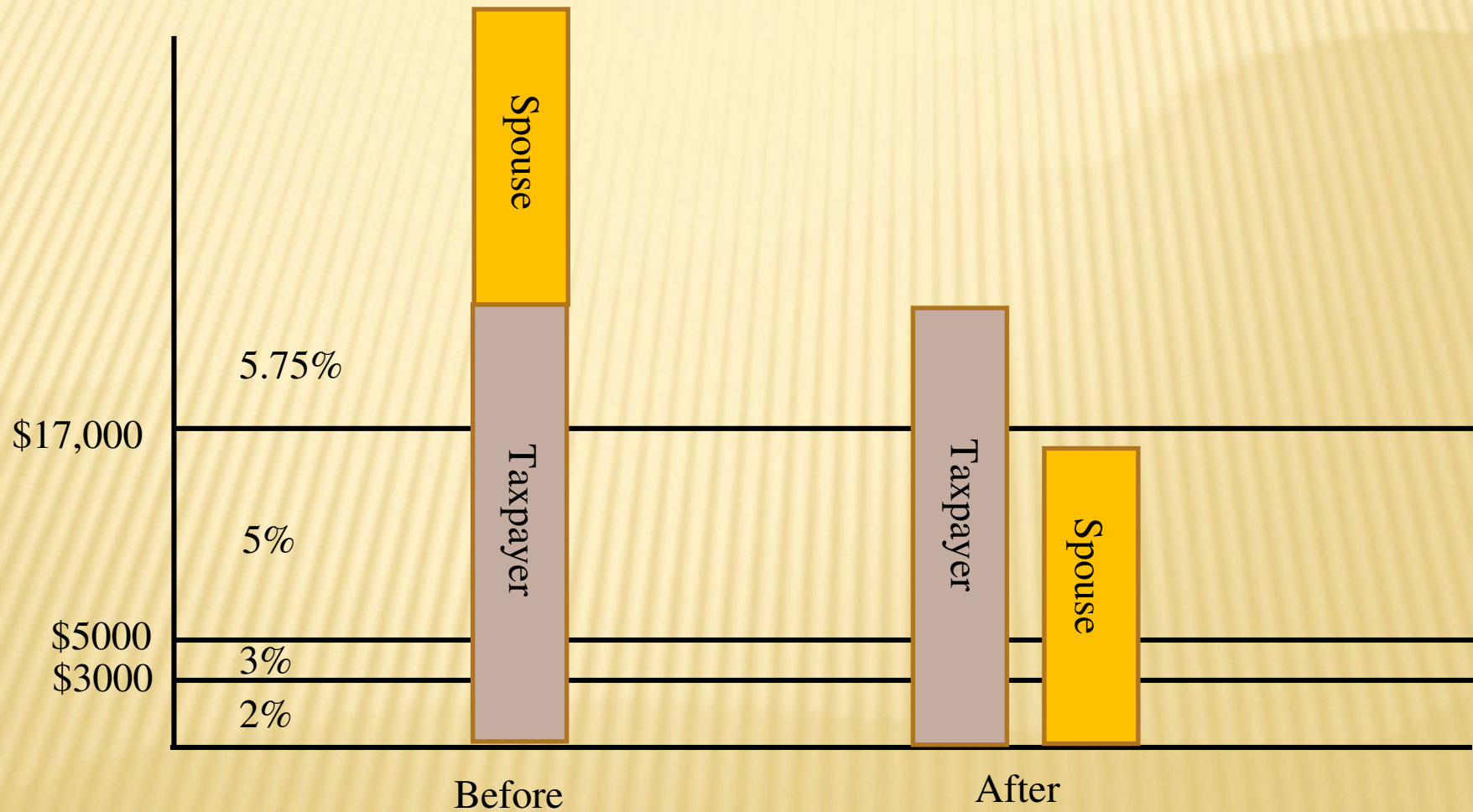
CALCULATING TAX OWED OR REFUNDED

- ✘ 760 Page 2 calculates the tax on Va Taxable Income and applies payments, credits, and voluntary contributions to arrive at your final refund or tax bill
- ✘ Some credits are worth examining
 - + 760 Line 18 is the Spouse Tax Adjustment (STA) (see next slide)
 - + 760 Line 24 is Va equivalent of Federal EIC
 - + 760 Line 26 is credit for political contributions
 - ✘ One half the contribution up to \$50 (MFJ)/\$25 (all others) for state offices
 - + 760 line 27 is credits from Schedule CR
 - ✘ Various obscure credits. See instructions
- ✘ 760 Page 2 Line 36 is the Consumer's Use Tax
 - + Tax on internet and out-of-state purchases

SPOUSE TAX ADJUSTMENT (STA)

- ✘ VA only has one tax table for everyone
- ✘ STA corrects for MFJ taxpayers paying more than if they filed single
- ✘ Maximum adjustment is \$259
 - + Can shift joint income (interest, dividends, etc.) and expenses between spouses to get maximum STA
 - + Strategy is to get one spouse close to, but under, \$17K

EFFECT OF SPOUSE TAX ADJUSTMENT



TO CONCLUDE VIRGINIA TAXES

- ✘ Virginia Tax Laws are complicated
- ✘ You can reduce your Virginia taxes by:
 - + Not missing Subtractions and Deductions
 - + Optimizing the Spouse Tax Adjustment
 - + Taking advantage of Credits
- ✘ Final Caution – Penalty threshold is low (\$150)
- ✘ **QUESTIONS OR COMMENTS ON VIRGINIA TAXES?**

The Proverbial Shoebox
or
Is There a Better Way?

ORGANIZATION OF YOUR TAX RECORDS

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, Broker Statements
 - × Sale of Home 1099-S
 - × Retirement Income 1099-R, RRB-1099 & SSA-1099
 - × Unemployment/Refund 1099-G
 - × Odds & Ends 1099-MISC
- × 1095-A Affordable Care Act
- × K-1's Partnerships and Trusts

ABOUT THESE FORMS

- ✘ They vary in size and design
 - + Don't be confused
- ✘ They contain information other than income
 - + Don't overlook anything
- ✘ They 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 (TO YOUR BENEFIT) FOR FILING

- ✘ 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)

ASSET BASIS RECORDS

- ✘ BASIS is your investment in an asset
 - + 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:
 - ✘ Records of improvements
 - ✘ Postponed pre-1997 gains reduce basis
- ✘ **KEEP THESE RECORDS FOREVER!**

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

ORGANIZING YOUR RECORDS

- ✘ It's a personal thing
- ✘ Throw out the shoebox (not the contents)
- ✘ 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 capital 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
 - + Separate doctors, dentists, insurance premiums and co-pays, prescriptions, glasses, mileage

SUGGESTIONS (CONT'D)

- ✘ 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