

John Higgins

**Today: Federal Taxes**

Next Week: Virginia Taxes and Record Keeping

# **TAX PREPARATION SIMPLIFIED**

# WHAT WILL YOU NEED?

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- ✖ All your tax documents
- ✖ Federal 1040 Instructions and Pub 17
  - + Other specialized IRS publications as required
  - + Search topic on [irs.gov](http://irs.gov)
- ✖ Virginia 760 Instructions
- ✖ If you don't have full medical insurance (Medicare, Military, employer-furnished, you may receive additional forms
  - + Form 1095-A for ACA insurance purchased in the Marketplace
  - + Form 1095-B or 1095-C for private or employer-provided insurance respectively

BIO  
INFO

INCOME

ADJUSTMEN  
TS

1040		Department of the Treasury—Internal Revenue Service (94)		2015		OMB No. 1545-0047		PSN Use Only—Do not write or stamp in this space.	
For the year Jan. 1-Dec. 31, 2015, or other tax year beginning						2015, ending		20	
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 instructions.						Apt. no.		Make sure the SSN(s) above and on line 6c are correct.	
City, state or post office, state, and ZIP code. If you have a foreign address, see separate instructions below for instructions.						Presidential Election Campaign			
Foreign country name				Foreign province/state/county		Foreign postal code		Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> you <input type="checkbox"/> spouse	
<b>Filing Status</b>		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. <input type="checkbox"/> 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. <input type="checkbox"/> 5 <input type="checkbox"/> Qualifying widow(er) with dependent child							
<b>Exemptions</b>		6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse c Dependents: (i) First name Last name (ii) Dependent's social security number (iii) Dependent's relationship to you (iv) If child under age 17 qualifying for child tax credit (see instructions) If more than four dependents, see instructions and check here <input type="checkbox"/> d Total number of exemptions claimed							
<b>Income</b>		7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule D if required b Qualified dividends 10 Taxable refunds, credits, or other tax of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15b Taxable amount 16a Pensions and annuities 16b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20b Taxable amount 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income							
<b>Adjusted Gross Income</b>		23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN <input type="checkbox"/> 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8817 35 Domestic production activities deduction. Attach Form 8803 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income							



# DEDUCTIONS AND EXEMPTIONS

## NON-REFUNDABLE CREDITS

## PAYMENTS & REFUNDABLE CREDITS

Form 1040 (2014) Page **2**

<b>Tax and Credits</b>		38	Amount from line 37 (adjusted gross income)	38	
<b>Standard Deduction for—</b> • People who check any box on line 55a or 55b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,200 Married filing jointly or Qualifying widow(er), \$12,000 Head of household, \$6,200	39a	Check: <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked <b>39a</b>			
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <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	Exemptions. If line 38 is \$154,000 or less, multiply \$4,000 by the number on line 6d. 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 8862	46		
	47	Add lines 44, 45, and 46	47		
<b>Other Taxes</b>	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 8880	51		
	52	Child tax credit. Attach Schedule 8812, if required	52		
	53	Residential energy credits. Attach Form 5695	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		
	57	Self-employment tax. Attach Schedule SE	57		
<b>Payments</b>	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 5310 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 9958 b <input type="checkbox"/> Form 9959 c <input type="checkbox"/> Instructions; enter code(s)	62		
	63	Add lines 58 through 62. This is your total tax	63		
	64	Federal income tax withheld from Forms W-2 and 1099	64		
	65	2015 estimated tax payments and amount applied from 2014 return	65		
	66a	Earned income credit (EIC)	66a		
<b>Refund</b>	b	Nonrefundable combat pay election <b>66b</b>			
	67	Additional child tax credit. Attach Schedule 8812	67		
	68	American opportunity credit from Form 8863, line 8	68		
	69	Net premium tax credit. Attach Form 8862	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"/> 2439 b <input type="checkbox"/> 8866 c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73		
	74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74		
	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75		
<b>Amount You Owe</b>	76a	Amount of line 75 you want refunded to you. If Form 8879 is attached, check here <input type="checkbox"/>	76a		
	b	Routing number			
	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
	d	Account number			
	77	Amount of line 75 you want applied to your 2015 estimated tax	77		
	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78		
	79	Estimated tax penalty (see instructions)	79		

# NEW DOLLAR LIMITS

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- ✘ 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
- ✘ Check 1040 Instructions, Pub 17, and [irs.gov](http://irs.gov) for specific values

## **PROVISIONS RECENTLY EXTENDED**

- ✖ Cancellation of Debt (COD) exclusion for principal residence mortgage forgiveness
  - + 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 (\$500 MFJ if both are educators)
  - + Enter on 1040 Line 23



## **PROVISIONS RECENTLY EXTENDED (CONT'D)**

- ✖ Adjustment for qualified tuition and fees
  - + Enter on 1040 Line 34
  - + Why is this important?
    - ✖ For low income taxpayers, reducing AGI increases EIC
    - ✖ For taxpayers 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](http://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
  - + \$500 life-time limit on credit
  - + Same rules/limits as last year
  - + Calculate on Form 5695
  - + Enter on 1040 Line 53



## **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

## **ACHIEVEING A BETTER LIFE EXPERIENCE (ABLE)**

- ✘ The Stephen Beck, Jr., Achieving a Better Life Experience Act of 2014 (ABLE) was enacted on December 19, 2014, to help blind or disabled people save money in a tax-favored ABLE account to maintain health, independence, and quality of life. Contribute up to \$14,000 into an ABLE account
- ✘ Distributions are tax-free if used for designated health, independence, and quality of life expenses
- ✘ See Pub 907 for details

# ACA OVERVIEW

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- ✗ 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 2015 income and family status and 2015 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
- ✘ 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

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- ✖ If you don't have MEC, you may be liable for a Shared Responsibility Payment (SRP)
- ✖ There are several SRP exemptions available, including
  - + Income below the filing threshold
  - + Short gap of less than 3 months
  - + Affordability
  - + Religious objections
  - + Incarceration
- ✖ Use Form 8965 Instruction Booklet

## **“BALANCING THE ACA BOOKS”**

- ✖ If you and your household haven’t had MEC for every month of 2015
  - + Claim any exemptions using Form 8965
  - + For any month with neither MEC nor an exemption, calculate your Shared Responsibility Payment using the SRP worksheet in Form 8965 Instructions
- ✖ If you have received or are eligible for a premium tax credit
  - + Use Form 1095-A and Form 8692 to reconcile PTC
- ✖ ACA can get complicated. Read the instructions carefully



# **SOME SENIOR-RELATED TAX ISSUES**

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- ✖ Filing Status
- ✖ Interest & Dividends
- ✖ Capital Gains including Sale of Home
- ✖ IRA Distributions
- ✖ Pensions
- ✖ Social Security
- ✖ Itemized Deductions
- ✖ Estimated Taxes & Penalties

# FILING STATUS

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- ✖ 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

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- ✗ 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
  - + Provide home for a qualifying dependent child or stepchild
  - + Not a grandchild or foster child



# INTEREST AND DIVIDENDS

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- ✖ 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

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- ✖ Broker's Statements (1099-B) changed again
- ✖ Report transactions on Form 8949
- ✖ Totals go to Schedule D
- ✖ Inherited Stock or Home (basis stepped up - except 2010 – need executor's statement of basis)
- ✖ Don't forget any Capital 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

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- ✗ 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
- ✗ If you can exclude the entire gain, no report is required



# FORECLOSURES

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- ✖ 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
  - + Note: Other types of cancelled debt, e.g., credit card debt, will be reported to you on Form 1099-C and to IRS on 1040, line 21, as “Other Income”
- ✖ Cannot claim a loss

# IRA DISTRIBUTIONS

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- ✖ 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

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- ✖ 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)
- ✖ If you have non-deductible contributions in your pension, you will use Form 8606



# **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

- ✖ Qualified Medical Expenses (if  $> 7.5\%$  or  $10\%$  based on age)
- ✖ Certain Taxes paid
- ✖ Certain Interest paid
- ✖ Certain Gifts to Charity
- ✖ Certain Miscellaneous Expenses

# MEDICAL EXPENSES

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- ✖ 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
  - + Prescription medicines, glasses
  - + Insulin does not require a prescription
  - + Mileage to get medical treatment or supplies (\$0.19/mile)
- ✖ But only to extent they exceed 7.5% of AGI



## DEDUCTIBLE TAXES

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- ✖ 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

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- ✖ Home Mortgage Interest:
  - + Interest reported on form 1098
  - + Points on initial loan
  - + Amortized points after refinancing
  - + Qualified Mortgage Insurance premiums
- ✖ Investment Interest paid
  - + Use Form 4952 to report

# 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. - “Thrift Shop” value in “good or better” condition
- ✗ Out-of-pocket expense:
  - + Travel @ \$0.14/mile
  - + Tolls and 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 not subject to the 2% discount:
  - + Gambling losses up to extent of winnings
  - + Unrecovered investment in an annuity

# CREDITS

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- ✖ Foreign Tax Credit – Enter on 1040 line 48 or Form 1116 if > \$300/\$600 (MFJ)
- ✖ 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

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- ✖ 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?**